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BUILDING THE 21ST CENTURY FEDERAL WORKFORCE: ASSESSING PROGRESS IN HUMAN CAPITAL MANAGEMENT

HEARING

BEFORE THE

OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL WORKFORCE, AND THE DISTRICT OF COLUMBIA SUBCOMMITTEE

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

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BUILDING THE 21ST CENTURY FEDERAL WORKFORCE: ASSESSING PROGRESS IN HUMAN CAPITAL MANAGEMENT

TUESDAY, JULY 20, 2004

U.S. SENATE,
OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL WORKFORCE AND THE DISTRICT OF COLUMBIA SUBCOMMITTEE OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 9:08 a.m., in room SD–342 Dirksen Senate Office Building, Hon. George V. Voinovich, Chairman of the Subcommittee, presiding.

Present: Senators Voinovich and Akaka.

OPENING STATEMENT OF SENATOR VOINOVICH

Senator VOINOVICH. The Subcommittee will come to order.

Good morning, and thank you all for coming. The title of today's hearing is "Building the 21st Century Federal Workforce: Assessing Progress in Human Capital Management." Its purpose is to examine the implementation of six human capital reform bills that have been enacted over the last 2 years. All of these bills originated in this Subcommittee, and I am proud that they have become law.

Before I discuss the legislation, I want to thank my colleagues across the aisle—Senator Akaka, Senator Carper, Senator Durbin, and Senator Lieberman—for their good ideas and tireless work over the last 2 years. All of these bills passed on a bipartisan basis. We need more bipartisanship here in the U.S. Senate.

I consider it a privilege to work with each of these individuals. This is so important for our country, and I look forward to continuing to work together on behalf of the Federal Civil Service.

I also thank our Chairman, Senator Collins. She is a leader in this field in her own right, and I appreciate that she has been a steadfast supporter of my efforts to improve the Civil Service. Chairman Collins was dedicated to establishing the Department of Defense National Security Personnel System, and this legislation is now law thanks to her hard work.

On November 25, 2002, the Homeland Security Act of 2002 became law. Title XIII of that bill has incorporated a series of governmentwide human capital reforms, including the establishment of agency Chief Human Capital Officers, a Chief Human Capital Officers Council, the permanent authorization of workforce reshaping authorities, a long overdue modification of the hiring process that gives Federal agencies the option of using a more modern proce-

dure. New category rating system versus the over 100-year-old rule of three, expands the pool of potential candidates from which a manager may choose.

A year later, on November 11, 2003, S. 926, the Federal Employees Student Loan Assistant Act became law. This is very important, particularly because so many of our college students are graduating with the big loans that they must repay. This legislation raises from $6,000 to $10,000 and to $60,000 from $40,000, respectively, the annual aggregate limits of student loan repayment Federal agencies may offer as recruitment and retention incentives. I am hoping that soon the Finance Committee will consider S. 512, which would amend the tax code so Federal student loan repayments are not considered income of individuals working for the government.

On November 24, 2003, the purpose of my Senior Executive Service Reform Act was accomplished by a provision of last year's defense authorization bill. This provision relieves pay compression within the Senior Executive Service and allows agencies to establish a pay for performance system for their senior executives. How this is implemented is very important as it hopefully will be a benchmark for other segments of the Federal workforce.

On December 19, 2003, S. 1683, the Federal Law Enforcement Pay and Benefits Parity Act of 2003 became law.

The law required OPM to conduct a study of Federal law enforcement compensation and classification. The report was submitted to Congress last week, finally.

In that report, OPM argues for a comprehensive, integrated government approach for addressing three key problem areas: Retirement, classification, and base and premium pay. That is very important because Homeland Security is in the process of their harmonizing several law enforcement agencies. I think it is important that we consider non-Homeland Security law enforcement entities to make sure that we do not create a large discrepancy between agencies. This already is an ongoing problem at the FBI. For a dozen years, they have been asking for some changes in their workforce classification system, and it has fallen on deaf ears. And I am hoping that with this report, we can do something about it.

On February 24, 2004, S. 610, the NASA Flexibility Act of 2004 became law. The law provides several new personnel flexibilities to the National Aeronautics and Space Administration to help that agency recruit and retain the best and brightest scientists and engineers for the Agency's high-technology mission.

I am very happy that I got to know Administrator Sean O'Keefe when he was at OMB. It was interesting that considering workforce flexibilities was something that I encouraged him to do. Then once he got to NASA, he came back and said, "George, we need some help at NASA," and I am really delighted that we were able to accomplish this for NASA because he is starting to make progress.

Most recently, on July 7, 2004, H.R. 2751, the GAO Human Capital Reform Act of 2004, the companion measure to my legislation, S. 1522, became law. It provides several new personnel flexibilities to the newly named U.S. Government Accountability Office, which

will allow GAO to continue to be a leader in the field of human capital management.

As I said earlier, we are proud of the changes we have made to the Civil Service Code. All of these changes have been carefully considered and have sought to provide greater flexibility within the existing Civil Service framework. And I would be remiss if I did not at least mention Dean Joseph Nye, and the John F. Kennedy School of Government, for their willingness to make human capital an executive session at the John F. Kennedy School of Governments. There we brought together the best and brightest people in this country to discuss how we could better provide a competitive human capital program in the Federal Government.

When combined with the much broader changes underway at the Departments of Homeland Security and Defense, in which my colleagues and I, on this Subcommittee, played a role, Congress has enacted the most far-reaching changes to the rules governing the Federal workforce since the passage of the Civil Service Reform Act of 1978.

We have not stopped there. Currently, S. 129, the Federal Workforce Flexibility Act of 2000, is advancing through Congress. I am hopeful it will be enacted this year. However, passing legislation is merely the beginning of changing the way the Federal Government does business, in this case, to attract and retain the best and the brightest of the Federal Government.

Implementation and careful management of the new flexibilities are critically important. Today we will examine how these six laws are being implemented. Through this hearing, I am hoping to establish a sense of what has worked, what has not, and how lessons learned from initial implementation can aid Congress as it considers future human capital reforms.

Our work is far from finished. The Departments of Homeland Security and Defense are in the process of redesigning their personnel systems. It is a process that will take several years. I think we need to really emphasize that. I was remarking to somebody that I had breakfast with this morning that when I was governor of Ohio, we instituted total quality management. It actually took us 7 or 8 years to fully implement. I think everyone should understand that there are some significant challenges in implementation. For example, it will be approximately 2 years from authorization to implementation of the new personnel system at DHS. Negotiations between the Department and employees continue.

I believe these significant changes are the beginning of broader reforms that may move across the entire Federal workforce. We must closely monitor their progress and learn from them. In the meantime, the measured reforms that I have sponsored during the last several years should continue to move forward for two reasons: One, they allow agencies to experiment with new and greater flexibilities and, two, agencies should be given as much flexibility as they need to address their workforce challenges until broader reforms are adopted governmentwide.

I am hoping that Senator Durbin is going to be here, and when he does come in, I will give him an opportunity to make an opening statement.

I would like all of the witnesses to stand up and be sworn.

Do you swear that the testimony you are about to give before this Subcommittee is the truth, the whole truth, and nothing but the truth, so help you, God?

[Chorus of I dos.]

Senator VOINOVICH. Thank you very much. The record will indicate that you all answered in the affirmative.

I would like to welcome Clay Johnson, Deputy Director for Management at the Office of Management and Budget, and the Hon. Dan Blair, Deputy Director of the Office of Personnel Management. I have worked often and closely on many issues with Mr. Johnson and Mr. Blair.

Our second panel consists of four distinguished guests. Testifying first is Christopher Mihm, Managing Director of Strategic Issues for the Government Accountability Office. Chris, does that sound good—Government Accountability Office? Does Comptroller General Walker like that title? [Laughter.]

Our other three witnesses are their respective agencies' Chief Human Capital Officers—Dr. Ed Sontag, from the Department of Health and Human Services; Joanne Simms, from the Department of Justice; and Vicki Novak, from the National Aeronautics and Space Administration.

I want to thank you all for being here today.

I would ask the witnesses to limit your oral statements to 5 minutes or thereabouts and remind you that the entire written statement will be entered into the record.

Clay, again, it is nice to welcome you. I want to congratulate you on the really good job that you are doing. This administration is very serious about their President's Management Agenda. One way you can tell an administration is serious is whether or not they are willing to measure the performance of their people, and your grading system has been welcomed. Keep it up, and thank you again for coming.

TESTIMONY OF HON. CLAY JOHNSON, III,[1] DEPUTY DIRECTOR OF MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

Mr. JOHNSON. Mr. Chairman, thank you. I am going to make some general comments on the details about what the agencies are doing to implement these laws. More will come from the other panel members, but let me just make some general comments.

In general, departments and agencies are doing a very good job in improving the way in which they place the right person in the right job at the right time. The goal is to place well trained, highly motivated people, with a clear understanding of what is expected of them and how they are performing relative to expectations; their improvements are the result of the legislation that you talked about in your opening statement and, I might add, of the President's Management Agenda. And one of the key issues is the new focus by the agencies on human capital. This is a new focus on results.

I conducted some focus groups recently with managers, SESes, GS–14s and GS–15s, career employees in 10 agencies. During the focus groups I talked to them about how their agencies function

[1] The prepared statement of Mr. Johnson appears in the Appendix on page 37.

now versus 3, 4, or 5 years ago. As an example, I asked, does the President's Management Agenda have an impact on "the way they do business?" And the responses were very interesting.

The comments I received back, particularly with regard to performance evaluations, were that employees, by and large, are here to serve the American people. These Federal employees deserve, want and need greater clarity about what is expected of them, so they can better serve the American people. They want to be challenged, they want to do a good job, and they want better training, they want better managers, they want better information technology, and they want support to help them do a better job.

The Federal Government performing better is not about all of our employees working harder; it is about our employees working smarter, and that means better management, better training, better IT, greater clarification about what is expected of them and so forth. It also means better pay. We received a lot of comments back from the employees that participated in the focus groups about pay.

The details of what is happening at individual agencies will come from the other panel members. I would like to suggest that I think there are two big issues for the Executive Branch and for Congress to work on.

The first one is how and when we will extend 21st Century personnel flexibilities throughout the Federal Government. The work that is going on in the Department of Homeland Security and the Department of Defense will be successful. It is too important for what happens throughout the Federal Government. It is too important to our creating the 21st Century workforce, which we all talk about and aspire to create. It will be successful. There will be a lot of continued discussions and negotiations with the unions, a lot of attention to detail, a lot of training of managers, but the goal will be accomplished.

So the question I think that we ought to ask each other in the months and years ahead is what happens next? Do we extend these flexibilities piecemeal, agency by agency, NASA here, HHS there, Interior Department there, or do we do it across the board? I hope we would be inclined to do it across the board. That would prevent us from ending up with 26 or 28 slightly different personnel systems. I think there is great value to having consistency across agencies. It is not a question of whether we extend these flexibilities; it is a question of when and how.

The second question that I hope we spend a lot of time working on together is when we begin to pay our employees more responsibly and effectively. Pay is a primary means by which we recruit, motivate and retain quality people. Our pay structure today is not set up to do that. We pay people too much alike. We give the same raises to top performers as we give to poor performers. We give the same raises to people in job categories that we have retention problems, as we do to job categories where we have no retention problems. We have the same problem with recruitment.

One of the things I heard back from managers is that they need greater pay flexibilities in agencies to better manage their people. I know this is going to happen, and I also know that training is going to be a factor in this. We will be talking about not just pay on an annual basis, but about what we are doing with pay and

training. I know this will happen, but we need to decide when. An election year is probably a difficult time to accomplish change, but this is going to happen, and I hope it happens sooner rather than later.

Mr. Chairman, I look forward to working with you and the other Members of this Subcommittee and with other Members of Congress on these matters. A 21st Century workforce, which is a great umbrella under which to think about all of these management issues is going to occur. I think we have the potential to make this change happen in a handful of years. You talked about the changes accomplished in your State of Ohio. Total quality management took 7 or 8 years in Ohio, and they are probably still working on it and getting better at it every year. But I believe that we can get all of the disciplines in place that are required to manage a 21st Century workforce in a handful of years and not a decade. I think it is important to do this sooner, rather than later.

Dave Walker, head of the General Accounting Office (GAO) held a conference at GAO 6 months or so ago, and we discussed whether you wait until it is 100-percent certain that the extension of flexibilities will be successful before making changes? And the resounding answer from everybody in the room was, no, you cannot wait until it is ever 100-percent certain because nothing is 100-percent certain. When you believe you have a good concept, you grant the authorities, and then you execute like crazy to make sure it happens well.

Mr. Chairman, thank you for having me at this hearing, sir. I welcome any questions from the Subcommittee.

Senator VOINOVICH. Thank you. Mr. Blair

TESTIMONY OF HON. DAN G. BLAIR,[1] DEPUTY DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

Mr. BLAIR. Mr. Chairman, thank you for having me here today. I am glad to appear on behalf of the Office of Personnel Management (OPM) and Director James and share this panel with Deputy Director Johnson.

I have a written statement, and I ask it be included for the record, and I will be happy to summarize. But before I start, I would like to have the Subcommittee indulge me for a moment. I have a beloved family member in the audience today. My niece, Amy Blair, is sitting at the back, and she began her public service this summer interning for Senator Kit Bond. So I hope the Subcommittee could extend a warm welcome to her as well.

You mentioned this in your opening statement, and I want to repeat it as well. We have seen tremendous progress on the human capital front over the past 3 years. I think this has been one of the busiest times we have seen since the enactment of the Civil Service Reform Act of 1978. The achievements brought about the enactment of the Chief Human Capital Officers Act were greatly needed. It granted agencies needed flexibilities in the Federal human resource (HR) field. These tools put into place a framework of accountability and assessment for using these flexibilities fairly and, importantly, responsibly.

[1] The prepared statement of Mr. Blair appears in the Appendix on page 40.

So my testimony today is going to focus on three dimensions: Leadership, flexibility, and accountability.

First, let us talk about leadership. It starts at the top. President Bush knows that. That is why we have the President's Management Agenda. Mr. Chairman, you know that, and that is why you have taken the helm and shown the leadership in enacting the needed reforms that we have seen Congress act on.

The President's Management Agenda highlights the strategic management of human capital. We have seen that progress on the other agenda initiatives clearly depends on having the right people, with the right skills, and the right jobs doing the right things for America. OPM's responsibility is driving that initiative. We are advising departments and agencies and holding them accountable according to the scorecard. Agencies are now focused like never before on strategically managing their most important assets, and that is their people.

In the Chief Human Capital Officers Act, one key component established a new council for elevating human capital management to what we believe is its proper role in a place at the management table.

It required agency-level designation of the Chief Human Capital Officers (CHCOs), it established a governmentwide council, and it signaled a cultural change in the strategic importance of managing people in the Federal Government.

The CHCO Council met seven times the past year, adopted a charter, established an Executive Committee, conducted a 2-day retreat, and drafted a technical plan for the current fiscal year. We implemented a CHCO Academy for learning and sharing best practices, and we appointed an executive director, whom you know quite well. Leadership and the determination to break new ground in modernizing Federal Human Resources practices has indeed been demonstrated, both by you and this administration.

Second of all is flexibility. There is a recognition that a one-size-fits-all government is a practice for the past. Agencies must have the ability to customize for individual needs. We have seen this with the Department of Homeland Security (DHS), the National Aeronautics and Space Administration (NASA), the Government Accountability Office (GAO) and now with the Department of Defense (DOD). Regarding DHS, those regs were issued back in February, after an intensive 10-month, highly collaborative and inclusive human resources systems-designed process. It involved employees, managers across DHS and staff and leadership from OPM as well. And our involvement was not only with the employees, but employee groups and unions.

After a comment period, we proceeded to the statutory meet-and-confer stage, where we presently find ourselves, and that is set to end at the end of this week. Final regs are expected in late September.

With the Department of Defense, we have the National Security Personnel System. A Program Executive Office has been established by DOD earlier this spring, and we are actively engaged in union employee outreach as well. Proposed regs are expected late this year.

Our Law Enforcement Officer report, which you referred to in your opening statement, also showed that we need flexibility to modernize how we compensate law enforcement personnel.

Also included in the Homeland Security Act and the Chief Human Capital Officers Act were new very significant authorities, such as direct hire. This expanded the authority during a severe shortage of candidates or critical hiring needs allows agencies to select from available candidates on-the-spot. OPM has approved six agency-specific requests, with two pending, in addition to governmentwide authorities for three occupations.

You also referenced category rating, which was an update of the "rule of three." That was a very important flexibility for agencies to use.

It also included authorities for Voluntary Early Retirement Authority and Voluntary Separation Incentive Payments. Both are important authorities for agencies to be using as well.

In an effort to educate agencies on the use of these flexibilities, OPM has taken a consistent leadership role in guiding, supporting, and evaluating the agencies. We have conducted training sessions for agencies. As a matter of fact, last month we had a hiring symposium on the hiring flexibilities for agencies and Chief Human Capital Officers. We have unveiled a 45-day hiring model for agencies to use. We have unveiled a 30-day hiring model for the Senior Executive Service. We have administered surveys of agency hiring practices and reported their findings, and we have also conducted CHCO academies.

We also see other flexibilities on the road with S. 129. But I think that an important part of all of this is accountability, and you mentioned the careful implementation and good management. Executive Order 13197 established two new Civil Service rules aimed at addressing internal accountability, external oversight, and submission of workforce information to OPM. The scorecard really ratcheted that up several notches. It scores agencies on the five goals in the President's Management Agenda. OPM has developed six human capital standards for success, and this year seven agencies have achieved green status on the human capital management.

So much has been accomplished. More remains to be done, but it will require close collaboration with the administration, congressional leaders, employees, veterans service organizations, union representatives, managers and other key stakeholders. But we are confident, Mr. Chairman, that under your leadership, we will continue to see more progress. You have been a tireless leader and champion for the Federal Government. We salute you for your hard work, and most of all we thank you.

I am happy to answer any of your questions.

Senator VOINOVICH. Thank you very much.

As I mentioned earlier, significant reforms to the Federal workforce were enacted as part of the Homeland Security Act. However it seems that OPM has been slow to issue implementing regulation for these authorities. Agencies have been reluctant to use the new authorities under the interim regulations out of concern that there may be changes. This has led to some confusion regarding the new flexibilities, including the new hiring authority.

I would like to ask both of you how are OMB and OPM working with agencies to ensure they understand these new flexibilities and are able to use them effectively?

Mr. JOHNSON. I keep telling them they need to do it faster, and they just will not listen. [Laughter.]

Mr. BLAIR. We want to do it fast, and we very much understand everyone's impatience. However, we also want to get it done right.

Senator VOINOVICH. Mr. Blair, would you please elaborate.

Mr. BLAIR. We want to get it done right at the same time. We are working hard to get the Senior Executive Service (SES) pay regulations out and the certification regulations out. We expect those to come out very soon. We recently issued the final regulations on category rating, and we have also issued the regulations on direct hire.

We understand the agencies have been slow in embracing some of these flexibilities, and so we have been out on the road working with agencies to make sure that they understand them. I referenced in my statement earlier the number of training sessions that we have held at OPM. We had a hiring symposium, which was attended by about 250 people last month at OPM. We are going to be conducting one in August, but we are also going to take that show on the road because we understand that flexibilities need to be used in the field as well. So we will be working with our Federal Executive Boards to coordinate hiring symposiums across the country.

But since last year, Director James has been putting out extensive guidance on the use of these flexibilities, and we will make sure that agencies have the knowledge, and have the guidance, and most of all have the will to use these things. Last week, I testified before the House Subcommittee on Civil Service, with some of the other Chief Human Capital Officers, and there was a recognition that not all agencies will want to utilize all of those flexibilities. We understand that. We just want to make sure that they know about them and that they are available.

Senator VOINOVICH. We want to make sure that they have the flexibilities they need, but authorizing flexibilities and using them are two different things. What, Mr. Johnson, is OMB providing agencies regarding oversight and encouragement on the use of flexibilities?

Mr. JOHNSON. That is not part of the Management Agenda. Flexibilities are a means to an end, and we hold them accountable for the end. We will work with OPM to change this and they are as interested as anybody in the use of these flexibilities, but we pay attention to what we are doing to fill skills gaps, succession gaps, leadership gaps, and performance evaluation systems and so forth.

Senator VOINOVICH. How about training? Have you looked at the overall training programs?

Mr. JOHNSON. Well, you and I have talked a little bit about training and your use and emphasis on training in Ohio. We have an opportunity to pay a lot more attention to training. We are not really sure how much money the Federal Government spends across the board on skills management and leadership training. We think it is in the vicinity of $2 billion a year, which makes it about 2 percent of our total payroll and benefits. I think in the private

sector? The general rule of thumb is a 3 percent ratio. So that suggests that we do not spend as much money as we should, and if we are playing catch-up, we really do not spend as much money as we should be.

So I think OMB and OPM need to work much more aggressively with the agencies and with Congress to think through more about formally what we are investing, what is the right level of investment on training on a year-to-year basis, particularly in the management area. As we become more focused on results and performance, we need to have managers who are better managers. They are not just senior workers; they are managers, and we need to invest in their ability to manage more effectively.

Senator VOINOVICH. In terms of assembling budgets, several years ago I surveyed 12 Federal agencies and asked them how much money they were spending on training. Eleven said they did not know, and one said we do know, but we will not tell you. When you have asked folks to put together their annual budgets have you asked them to specifically put in an item for training or does it just fall under some other category?

Mr. JOHNSON. I think it falls under another category. When Members of Congress and people in agencies go looking for money for other priorities, they tend to find it in training categories. It is an investment that is not managed as formally as it should be.

Senator VOINOVICH. Mr. Blair.

Mr. BLAIR. Mr. Chairman, when you mentioned training, I think you really hit a really ripe area for action. Over the course of the last 10 years, and during the downsizing effort of the 1990;s, we saw that a number of agency and Department Human Resources staffs were decimated, that the administrative arena was targeted for the buyouts and downsizing. And what we have seen with a number of our human resources folks, just not at OPM, but across government, is that some of the best ones left, and that the ones that we have left are in need of additional training and education.

If we are going to be extending these flexibilities to the agencies, it is vitally important that they understand what they are. We are holding sessions at OPM. We will be doing it here in Washington and across the country, but what Director James has talked about is moving ahead toward a higher professionalization of the human resources staff.

In my written testimony, we talk about implementing competency models and a community of practice, but it is very important that the human resources staffs across government understand their roles and what really their new roles are, that under decentralized government it is all the more important that they understand what the merit system principles are, that they understand the applications of veterans preference, that they understand what are the right circumstances for going for direct hire and the other flexibilities. And so that is going to be a new area that we will be embarking on in the future is better training and more of a professionalization of the human resources staff, just not at OPM, but across government as well.

Senator VOINOVICH. Could you share with me what OMB and OPM have done within your own organizations to implement the use of workforce flexibilities.

Mr. JOHNSON. Well, the specific flexibilities have been made possible with this past legislation. To my knowledge, OMB has not utilized them, the buyout authorities and student loan repayment. Our focus has been, thinking in terms of present management agenda goals, and what we have tried to do in the last year, is better differentiate between levels of performance with our workforce, improve the quality of our performance evaluation systems, help train our managers to be better evaluators, better providers of feedback to employees regarding what is expected of them and how they are performing relative to those expectations.

We have been working on a better strategic plan to better define the outcomes that OMB is responsible for, which then gives us better definition of goals to hold senior leadership responsible for. Those have been the primary things that OMB has been working on to improve our human capital practices.

Senator VOINOVICH. How often do you get together with the Secretaries of the Departments to talk about Management Agenda? Are there regular meetings to talk about the Management Agenda?

Mr. JOHNSON. The so-called President's Management Council, the PMC, meets every other month. These are the chief operating officers, typically the deputies in the departments. The Executive Committee, which is six or seven members of the PMC, meet with me every month. We discuss the President's Management Agenda and what we need to accomplish and what the nature of the resistance is, what are the opportunities to go faster, and what can we do to help them get to where they want to be.

So, the leadership of the PMC meets monthly, and the full PMC meets every other month. We also meet if individual issues come up, or if we are introducing a new initiative or there is a new law that needs to be explained. I am in constant communication with them by E-mail, and phone.

Senator VOINOVICH. Mr. Blair, does OPM itself use flexibilities?

Mr. BLAIR. We have utilized them. We have used category rating for between 25 and 30 positions, I am told.

I do not believe we have used the direct hire authority yet, but we also have a student loan program that is in place, and we have utilized the 30-day hiring model for our SES positions, and we have also been utilizing the 45-day hiring model for our general schedule positions.

Senator VOINOVICH. We talked a little bit about the regulations instituting pay for performance in the SES. What are their status? That is really important.

Mr. BLAIR. They are imminent. They should be out in the next few days. They will come out in two parts. One will be the certification, which will be issued jointly, I believe, by both the Office of Management and Budget and OPM, and then we will have the pay regulations themselves, which will be open for comment for 30 days.

The certification regulations I am told will be interim final. So agencies will be able to start applying them and will be able to get in the process of certifying them.

Senator VOINOVICH. Well, it is really important they are published and that we, in Congress, really watch carefully how this is done. People must be trained to do the performance evaluations be-

cause I think that when this cascades into other segments of the workforce, we will need a benchmark to ensure they do it properly. It takes a lot of time to get to do it correctly. I hope everybody understands that.

Mr. BLAIR. We will be putting out guidance along with the regulations, and we also plan to host another training session at OPM for those SES regulations.

Senator VOINOVICH. Mr. Johnson, I was pleased to see that on the revised President's Management Agenda scorecard, seven agencies now have earned a green on their overall status of human capital management. What more will OMB do to continue moving agencies toward green?

Mr. JOHNSON. Well, the way we relate to agencies now, with regard to the President's Management Agenda, is we are asking them to set goals of where they want to be on each of these five initiatives a year from now. So we are in the process of starting to work with them to decide where they would like to be on all five of these initiatives in July 2005.

And we find the agencies are very aggressive in their goal-setting. They all want to get to yellow if they are red, and they want to get to green if they are yellow, and they want to get there faster than their fellow cabinet secretaries. They want to improve for bragging rights, but they also want to get there because they realize it is good for their agencies. Improvement in the Management Agenda helps their agencies be more focused on results. It makes their agencies better places to work.

So we help them achieve their goals, sooner, rather than later. Our primary responsibility is to make sure that the 19 agencies that are not at green understand what the 7 agencies that are at green have done. There is a lot of facilitation, a lot of sharing of best practices. How did the 7 green agencies train their managers to better evaluate performance? What does the HHS performance contract look like, and so might one of these yellow or red agencies want to adopt something like HHS, which Ed Sontag will talk to you about later?

A few agencies that, for instance, have pass/fail systems are expressing some reservation about going to a system that provides more distinction between different levels of performance. We are meeting with those agencies to explain to them—for instance, that OMB just went through this. We had a system a couple of years ago that though it was not called pass/fail, 80 percent of the people were in one category and 20 percent were in another. That is largely a pass/fail system, and I think we have successfully moved away from that, very much for the betterment of OMB.

And so we met last week with the leadership at one of the agencies to take them through what we had experienced, to walk them through the steps OMB took to transition, and to give them comfort level that they could accomplish the same thing. And if they followed our model, we felt that they could be as successful as we have been.

So it is giving them confidence to move forward and giving them best practices to move forward most expeditiously.

Senator VOINOVICH. And is the forum for that the Chief Human Capital Officers Council?

Mr. JOHNSON. That is the primary forum because that is where the real technical work is done. But then also for any significant movement to be made on any of these PMA initiatives, it has to have the total commitment at the top of the agency. If there is any reservation at the deputy level or secretary level, then there is going to be reservation throughout.

And so while Director James and the CHCO Council are working on the expertise at the Chief Human Capital Officer, we are working with the senior leadership to make sure that they are committed, and they are going to go back to their agencies and help their CHCOs implement this sooner, rather than later.

Senator VOINOVICH. Do you think they understand how that is going to help them do a better job?

Mr. JOHNSON. We conducted focus groups in these 10 agencies that I mentioned, and they talked about what is in this for them, what enlightened personnel practices are all about, what is in it for the employee. And we had members of the leadership of these agencies sitting in on this to observe, and they all walked away, as I did, very enlightened that this is a good thing. This is not something that we are imposing upon the employees. This is good for employees. This makes their agencies better places to work, and therefore it is good for employees.

And our challenge is to be able to develop and implement these new processes really well and really quickly.

Senator VOINOVICH. Mr. Blair, in the recently released Federal Law Enforcement Pay and Benefits Report, OPM makes a case for broad authority to establish a governmentwide framework for law enforcement, retirement, classification, and basic pay and premium pay systems in consultation with employing agencies and with the concurrence of the Attorney General.

Regarding basic pay, OPM says that this authority would provide the flexibility to make strategic decisions that target specific occupations based on labor market conditions and other factors.

Could you please explain the difference between labor market pay adjustments and locality adjustments, and why do you believe that labor market adjustments are a better alternative?

Mr. BLAIR. Labor market adjustments would be more targeted than just broad, across-the-board locality payments which may go beyond just law enforcement occupations. And what our report really wanted to do was to make a recommendation to Congress to follow the template that was established in DHS and DOD. It is a recognition that the law enforcement pay and compensation systems covering basic pay, premium pay, and retirement have become outmoded and outdated and that there is a need for them to be modernized and to be brought up-to-date.

We need to go forward because over the past 50 years there has been a patchwork of authorities established giving certain groups of law enforcement premium pay, additional retirement benefits or additional pay, which has created inequities across the board. Rather than doing it on an across-the-board adjustment, which some of the legislation has proposed, we need to be much more targeted, and specific occupations and specific localities may need to be targeted as well. That is why we made a recommendation that we establish a broad framework that agencies could operate in, in

order to best assess how they can recruit, retain and bring about the strategic management of their law enforcement communities.

Senator VOINOVICH. Is your plan to look at various areas of the country to see what the market is paying and for comparable positions, for example, in the sheriff's office or the police department?

Mr. BLAIR. I do not believe that our report would delve down that far, but what we would do is, depending on the legislative authority recommend that Congress give us broad latitude to look across the board at different localities, at differences within those localities among occupations and to develop a broad framework that agencies then could use.

What we do not want to see is a system that we have now where one agency, because of additional legislative flexibilities such as added pay or retirement benefits, can pick the best of another agency's law enforcement. We need to equalize and harmonize and at the same time recognize that it can be done within a framework of flexibility.

Senator VOINOVICH. Well, I know that when the law enforcement report was issued, some groups that were very disappointed because they thought there would be some specific recommendations. Instead, OPM issued generic recommendations in three broad areas. However, those recommendations need to be flushed out as quickly as possible. We really need to move on the FBI. We must provide relief to people that work for the Agency in high cost-of-living areas. I have heard horror stories of employees living 60 miles out of town in order to find affordable housing. I am not certain that locality adjustments will fix the problem. Given Mr. Blair's statement perhaps we should explore market based salary adjustments.

I know when one of our outstanding leaders in Cleveland, Van Harp, transferred to Washington, they gave him an extra $26 a month to live in Washington, DC. I mean, there are just some unrealistic things going on out there. And if we are going to get the job done in homeland security, then we have to understand that those agents have got to be paid competitively.

And I think that, as we are moving, I do not know where we are yet in Homeland Security—where are we, do you know, in terms of that harmonization?

Mr. BLAIR. In Homeland Security, we are in the final work of the statutory meet-and-confer period, and that should be up at the end of this week, and we expect the final regulations later this fall.

Senator VOINOVICH. In terms of the harmonization of the agencies, how is that coming? Where is that? What is the status of that, do you know?

Mr. BLAIR. I would have to provide that for the record. I know that we have been in constant consultation with the employee organizations and with DHS on that.

INFORMATION FOR THE RECORD

The passage of the Homeland Security Act of 2002 signaled the beginning of one of the largest transformation of the U.S. Government in almost 60 years. When the new Department of Homeland Security (DHS) stood up in March 2003, it included 22 different human resources servicing offices, 8 different payroll systems, 19 financial management centers, and literally hundreds of legacy systems that had to be consolidated, integrated and upgraded. My understanding is that a year later, those

22 different human resources servicing offices are now down to 7, the 8 different payroll systems are now down to 3 and moving to 1, the 19 original financial centers are now down to 10, and steps are underway to address legacy systems.

Recognizing the magnitude of this consolidation, the timetable for DHS to complete the standup stretched over a period of 24–30 months. I am told that the Department identified over 900 activities that needed to be completed during this period and that 12 months after the Department's first day, 75 percent of those activities had been completed.

Senator VOINOVICH. What I would like to know is when are they contemplating doing their harmonization among the various agencies in Homeland Security? And look at that date, and what are they doing, and then we ought to move very quickly on the non-DHS agencies. But I think that you ought to set a goal that you knock this thing out in the next 6 months or sooner, if you possibly can. I think it is really important.

Mr. BLAIR. That is a good message. Thank you, Mr. Chairman.

Senator VOINOVICH. I have several other questions that I would like to ask, but I am going to ask that you answer them in writing.

Senator Akaka is here today. Senator Akaka, thank you very much for being here. If you would like, you can share with us your words and ask the witnesses additional questions or you can start with asking additional questions.

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman. I would like to make a statement and then ask questions.

I want to commend you, Mr. Chairman, for all you have done in human capital management. You have been a champion in this respect, and I have been so happy working with you on this. Mr. Chairman, our Nation will be facing a huge crisis in a few years if we do not move to take care of the problems that we expect in human capital and its management.

Mr. Chairman, you and I have worked together to give agencies the tools and resources needed to recruit, retain, and manage their workforce. I was pleased to join you in offering an amendment to the Homeland Security Act providing a number of new workforce flexibilities for the Federal Government. It is in that spirit, Mr. Chairman, that I thank you for holding this hearing today to review the implementation, use, and training and education related to these new flexibilities.

According to a new Government Accountability Office report, agencies cite several barriers to using the new flexibilities, including the lack of guidance and rigid regulations from the Office of Personnel Management. Although OPM has recently engaged in a number of activities to address this issue, I am interested in hearing OPM's long-term strategy to help agencies use flexibilities effectively.

I wish to be fair to OPM because this problem is larger than OPM. Agencies must do their part, too, by engaging in strategic workforce planning and skills assessments and working with the Chief Human Capital Officers Council to determine best practices, eliminate internal red tape, and utilize the flexibilities best suited to meet their needs.

Such action is essential because, despite continuing efforts to reduce inefficiencies and reform the hiring process, studies show that

the Federal Government lags far behind the private sector in its ability to recruit, to hire, to retain and to manage a skilled workforce. These studies are quite troubling, in light of an increased interest in Federal employment during the past few years and the growing number of employees eligible to retire. We may be winning the hearts and minds of Americans seeking employment with the Federal Government, but we are still losing the talent war.

Chairman Voinovich, you and I have committed ourselves to that cause, and I look forward to our continued partnership. I look forward to hearing from the witnesses, and I do have some questions for them.

Mr. Blair, while I agree that not all flexibilities are appropriate for all agencies, I am concerned with the findings of GAO. The June 2004 report did not state that agencies failed to use new hiring flexibilities because they were unnecessary, but rather cited lack of OPM guidance.

I recall that during the debate on the new human resources systems at DHS, GAO noted that agencies have the necessary flexibilities to manage their workforce, but failed to do because of a lack of OPM guidance.

Mr. Blair, could you elaborate on the "community of practice" OPM plans to develop and provide more information on OPM's long-term plans to help agencies understand and use flexibilities, especially in the area of guidance and training.

Mr. BLAIR. We took issue with the GAO finding about the lack of guidance. Since the enactment of the legislation, we have been putting out consistent and steadfast guidance on the use of these flexibilities. We have held training sessions, and Train the Trainer sessions. At every Chief Human Capital Officers Council meeting I am told that hiring was a subject. We have a hiring subcommittee devoted to the use of the hiring flexibilities.

But you do hit a nail on the head when you talk about what are we going to do in the future to make sure that not OPM personnel, but that Agency personnel are trained in the use of this. One of the things that Director James has talked about is improving the competencies of human resources staff across the government. We need to move in the direction of automating some of our testing. The Administrative Careers with America test, which is not automated, needs to be updated and automated as well. But we also need to improve the talents, and the abilities, and the skills of human resources staff. That's one of the areas that we are going to be doing is looking at how we can increase the professionalism of human resources staff across government.

Senator AKAKA. Mr. Blair, last week, OPM delivered the report requested by Congress on pay and benefits for Federal law enforcement officers, which recommended that OPM be given broad authority to establish a governmentwide framework for law enforcement pay and benefits. This would be a rather broad grant of authority, and I would appreciate having more information as to what this framework would look like now or 5 months later.

Mr. BLAIR. I would be happy to give you a thumbnail sketch of what is the template that we have seen for the Department of Homeland Security and for the National Security Personnel System within DOD. Congress has given OPM the authority to develop this

along with DHS and DOD. We recognize that this new law enforcement system that we recommended would cross agency lines, but it is really necessary in order to bring about ways of addressing the inequities that exist throughout the law enforcement occupations in terms of pay and benefits.

And so it is very important that Congress consider how they want to grant that authority to us, and we would say, look, at the authority granted to OPM and DHS, look at the authority granted to the Department of Defense and OPM in developing these new systems, and I think that that could provide the framework.

Senator AKAKA. Mr. Blair, what role would you expect Federal employee unions and associations to play in the development of this new system for law enforcement officers?

Mr. BLAIR. I think that the expectation would be that they play the same collaborative role that they have been playing within DHS and that you are seeing within DOD as well. I think that they provided an excellent framework, that the collaborative process was hailed probably from many different directions as a model of collaboration and that we would use that as a model for any new system as well.

Senator AKAKA. Mr. Johnson, upon release of the July 2004 quarterly President's Management Agenda scorecard, you stated that agencies can only adopt the PMA's disciplines and habits and better focus on results if their employees are fully involved in the process.

I agree that employee involvement is key to any change. What is OMB doing to help agencies fully involve their employees in meeting the goals of the President's Management Agenda?

Mr. JOHNSON. Well, we were reminding agencies, starting at the top, that they have to do this. This is very important. As I mentioned, we conducted focus groups in 10 different agencies, and I have shared the findings, the feedback from employees and the managers that we talked to in these 10 focus groups, with the leadership of the 26 PMA agencies. And it is a very clear picture that is painted that what is good about this, what the challenges are about these changes and the degree to which employees need to be involved. The opportunity exists to do this with full engagement of the employees because it is to the employees' and the Agency's advantage; it is a win-win for everybody.

And so I think we have done a good job so far of making sure that the leadership of agencies understand this agenda. Many agencies are already fully engaging their employees and have ways of seeking implementation ideas from their employees about how to get a clean audit or how to implement competitive sourcing or how to implement some new performance evaluation system. Some agencies obviously are better than others. A primary topic of conversation in these every-other-month PMC meetings is the various ways to involve employees.

And in all of our communication about the PMA, such as our **results.gov** website, and the communication that agencies leadership are going to engage in with their employees in a couple of weeks, recapping what they have accomplished in each of the agencies over the last 3 years, they are going to be talking about their commitment to seek advice and counsel from the employees. They will

remind the employees why this greater focus on results is good for the agencies and good for the employees.

We will be reminding the leadership. The leadership will be reminding the employees. We will be talking about it as if it is an expectation, so that if and when it does not happen, there will be plenty of incentive for the employees and managers to raise their hand and say, "Wait a minute. I thought we were supposed to be involved in this, we need more information than we are getting or we need to be more involved." Because they will be inclined to ask for involvement, results will happen with greater regularity.

Senator AKAKA. Mr. Blair, I understand that it is difficult to hire individuals for entry-level positions because most of the government's assessment tools are experience driven. What is OPM doing to help agencies recruit people for these positions?

Mr. BLAIR. What I think you may be referring to are the administrative positions in a GS–5 and GS–7, which are covered under the Administrative Careers with America assessment tool. Right now that tool is cumbersome. It is experience driven, and we need to look at ways of modernizing that and bringing it up-to-date and automating that.

We realize that this is a substantial investment. This is an area where the Chief Human Capital Officers Council can play a role, and OPM can play a role in looking at best ways of updating, modernizing and automating the tool so that we can do a better job of recruiting for those positions.

Senator AKAKA. Mr. Blair, OPM has suggested a 45-day hiring period for agencies from the close of the application period to the hire date. At last week's House hearing on the use of new hiring flexibilities, I understand that there was a discussion over the time needed for agencies to write vacancy announcements properly and plan for vacancies in advance.

What time lines are suggested for posting openings and what guidelines are available to help agencies in this area?

Mr. BLAIR. We have Human Capital Officers at OPM which are available for the agencies to help them assess and answer specific questions regarding any specific positions they may be recruiting for.

Generally speaking, we have seen that sometimes the vacancy announcements are oftentimes laden with government jargon, which is not readily understandable to the applicant who is coming from college or who is coming from outside of government. We have seen sometimes the agencies do not need to open the vacancy announcements for quite as long as they have, but they do so because they have agreements or other types of what we call self-wrapping red tape that bind them in one way, shape or form. We urge agencies to look at those and see what ways that they can streamline that process.

It depends on the position that you are recruiting for. Some of these may be very hard-to-fill positions. Maybe it is a position that direct hire authority may be good for, if it is a critical hire or a shortage category. And, we recognize one size does not fit all in this, but what does fit into all of this is the need for agency leadership to pay close attention to the recruiting strategies and staffing strategies that the agency is employing because we all know that

the retirement wave is coming upon us and that now, more than ever, it is important that we have staffing mechanisms in place through which you can quickly recruit employees to fill those positions.

Before you do the recruitment, you need to do the succession planning and identify those vacancies in advance. If you do not plan for the vacancy until it arises, then you have already passed the critical point, and you are going to suffer further delay. This is why succession planning is critical.

Senator AKAKA. Mr. Chairman, I have one last question. May I?

Senator VOINOVICH. Yes.

Senator AKAKA. Mr. Blair, I am interested in how agencies can do a better job of selling the Federal Government as an employer of choice. While OPM has offered training on the use of flexibilities, what kind of training does OPM provide on marketing Federal job opportunities?

Mr. BLAIR. One of the things that we have done is that we have reached out to colleges and universities through a partnership with the Partnership for Public Service in a Call to Serve Initiative. We have engaged over 55,000 people in our hiring fairs across the country, and I think that those hiring fairs shattered what we believe to be a myth, that the Federal Government cannot recruit top-notch talent. We held over a dozen hiring fairs across the country. Over 55,000 people attended. Our hiring fair in New York had lines wrapped around Madison Square Garden probably at least four times. And our surveys of the people who attended showed not only were these bright, ambitious young people, but they were also well-educated, they came prepared with resumes, and they came prepared with a dedication to public service, and a patriotic spirit, and they wanted to serve America.

So we see that there is a broad vein to be tapped out there of not just young people, but people across the board who want to work for America. We just want to make sure that we have the processes in place that agencies can access in order to tap into that talent.

Mr. JOHNSON. Senator, one comment about that question. Agencies have their own programs for attracting MBAs or fast-track people or people with specific skills, and it is really quite impressive. And your question makes me think we need to do a better job of keeping inventory of all of those best practices and share that with agencies, and Dan and I will make sure that happens. We will share that information with you. We will do that here in the next month or so.

Senator VOINOVICH. Thank you. I really appreciate your being here for this hearing.

It is my understanding that the Partnership for Public Service works with OPM. In addition, OPM hired "Monster," to redesign the USAJOBS website. What is the status of that project?

Mr. BLAIR. We have updated our website. We have gone through a series of initiatives in which we have worked with the agencies to improve vacancy announcements, and we have had a whole series of updates to the website in order to try to make it more user friendly. That is an ongoing process for us.

Senator VOINOVICH. Have you been responsive to suggestions of the Partnership for Public Service?

Mr. BLAIR. We work very closely with that group. It is a key stakeholder. They have the best interests of the civil service and public service at heart. We engaged them in the Call to Serve in which we have reached out to about 450 colleges and universities to date. We have worked with them on a number of initiatives on improving hiring, and we see them as a partner in this continuing effort to assess our human capital leadership.

Senator VOINOVICH. Have they been helpful?

Mr. BLAIR. Very helpful.

Senator VOINOVICH. Well, I want to thank you for your testimony. I want you to know that I look forward to a continuing dialogue. I just want all of you to understand that I am going to continue to have hearings on all of this legislation and this issue. I want to make sure that it gets cascaded out throughout the various government agencies.

Senator Akaka, you and I and several others are going to have to decide how reforms should progress, whether we are going to consider reforms agency-by-agency—and I know the Chairman of our Subcommittee has thought about that—or do we consider across-the-board changes?

Of course, how we proceed depend upon the regulations for the new personnel system at the Department of Homeland Security. I want to underscore again how important it is that when the final regulations are published employees and unions, have been fully involved in the design process.

I think it is really important that independent people reviewing the regulations will say that they are fair, make sense, and it is going to help the government and at the same time be fair to the people who work for our government that are represented by organized labor.

Thanks very much.

Mr. BLAIR. Thank you.

Mr. JOHNSON. Thank you.

Senator VOINOVICH. As I mentioned in my opening statement, I would like each of you to limit your remarks to 5 minutes. First of all, thank you for coming. We will start our testimony with Mr. Mihm.

TESTIMONY OF J. CHRISTOPHER MIHM,[1] MANAGING DIRECTOR, STRATEGIC ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. MIHM. Thank you, Mr. Chairman.

Senator VOINOVICH. We welcome you back. You have been here a lot of times over the last 5 years.

Mr. MIHM. Well, thank you, sir, and it is always an honor to appear before you and Senator Akaka to discuss progress in addressing the Federal Government's human capital challenges.

Mr. Chairman, your December 2000 report to the President noted that successfully addressing the human capital crisis will not come quickly or easily. No single piece of legislation or Executive

[1] The prepared statement of Mr. Mihm appears in the Appendix on page 47.

Order can accomplish these goals. And for this effort to be successful, it must be embraced by Congress, career managers and employees on the front lines—exactly the points you have been underscoring today. Without the sustained effort of all the stakeholders, this effort will fall short.

Since 2000, and under the leadership of this Subcommittee and others in Congress, more progress has been made in addressing human capital challenges that the agencies face than in the last 20 years—a point that Mr. Blair made in his statement as well. The key to continued progress in our view is twofold:

First, agencies must use the tools and authorities that Congress provided to address their individual challenges and ensure that they are creating the organizations they need for the future rather than just recreating the past. This is exactly the point, Mr. Chairman, that you made in your opening statement.

Second, we need to consider if additional and more systemic changes are needed to the Federal Civil Service system, and that is the point, of course, that Deputy Director Johnson was making in his remarks.

Turning then briefly to the first issue. A little over a year ago, in a joint hearing before your Subcommittee and Chairwoman Davis on the House side, we testified that Federal human capital strategies were not constituted to meet current and emerging challenges or to drive the needed transformation across government.

At your request, and the request of others in Congress, we have undertaken a large body of work since then, looking at the implementation of the recent legislative initiatives. That work centered on four major themes that are detailed in my written statement, including:

First, conducting strategic workforce planning, including using the right-sizing and hiring tools that Congress provided;

Second, strengthening employee training and development, an area where, as you have noted, there has been substantial underinvestment, and often that investment has been unwise where it has been made, that is, not strategic;

Third, implementing Pay for Performance and management reforms, particularly the new SES statutory reforms;

And then, fourth, creating strategic human capital offices with strategic human capital officers and an effective and strategic Chief Human Capital Officer Council, which in our view is absolutely vital.

Our work in each of these areas identified leading practice for the agencies to consider as they seek to address the current challenges and prepare for the future. Taking your guidance, Mr. Chairman and Senator Akaka's, we have had a specific focus on the capabilities that agencies need to put in place, in order to effectively use the new authorities that have been given: Training, employee involvement, education, strategically planning to use those authorities. All this we have done in order to help the successful implementation of these initiatives.

Turning to my second point, the need to consider additional structural changes to the Federal Civil Service system. The broad authorities that Congress has provided the Department of Homeland Security and DOD were clearly important for those agencies.

Nevertheless, we are fast approaching the point where the so-called standard and governmentwide ways of doing business are neither standard nor governmentwide.

To help advance a discussion concerning how human capital reforms should proceed, the Comptroller General and Chairman Volcker hosted a forum to discuss the framework for human capital reform, as Mr. Johnson noted in his remarks. While we will issue a detailed summary in the coming weeks, the discussion was centered on three areas:

First, principles that the government should retain in a framework for reform because of their inherent enduring qualities, such as an updated set of merit principles;

Second, criteria that agencies should have in place as they plan and manage their new human capital authorities;

And, third, processes that agencies should follow as they implement any new authorities.

Returning to the point, Mr. Chairman, you made in your December 2000 report. Congress, OPM, OMB, the agencies, Federal employees and other stakeholders have all worked very hard together in recent years to make marked improvement in the Federal Government's human capital management. We are making progress, and that is real progress. We need to build on that current momentum, however, and ensure that agencies and their employees have, and are effectively using, the tools and authorities they need to address the governance challenges of the 21st Century.

Senator Voinovich, this concludes my statement, and obviously I would be happy to take any questions you may have.

Senator VOINOVICH. Thank you. Dr. Sontag.

TESTIMONY OF ED SONTAG, PH.D.,[1] ASSISTANT SECRETARY FOR ADMINISTRATION AND MANAGEMENT, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. SONTAG. Senator Voinovich, it is a pleasure and an opportunity to be here this morning to testify on the flexibilities and efficiencies that Congress, administered by OPM and OMB, have given the Department of Health and Human Services.

Secretary Thompson's major goal with the Department when he arrived in January 2001 was to create one department. We feel very confident and take a great deal of pleasure in talking about the flexibilities that have been granted to us and how they are helping Secretary Thompson and his appointees administer a very complex program.

Clearly, recruitment, hiring, developing, and retaining the workforce is the key to any solid administrative management effort. Our one Department goal has been the showplace and centerpiece of what we are attempting to do, to bring disparate and sometimes unrelated agencies together to respond to the Nation's health needs.

I would like to briefly talk about some of the things that we have done not only as a direct result of the authorized flexibilities, but of the culture of change that these flexibilities have brought about in our Department.

[1] The prepared statement of Mr. Sontag appears in the Appendix on page 68.

We have reduced the number of hiring officers in a department from 40 to 4, saving, in person power, over 33 percent and at the same time increasing our efficiencies. We have de-layered the Department of Health and Human Services. We have administered e-grants. We are moving into e-payroll.

Particularly in the area of human capital, we have created Emerging Leaders Program. This program is really one of our showcases in human capital. We have recruited over 250 individuals into government. We now are in our third year of administering this program. In the first 2 years, we have retained over 95 percent of the young people who have come to government. This program primarily focuses on individuals with graduate degrees. The vitas and the resumes they bring to government is just a wonderful example that government can recruit the best and brightest.

We have developed our SES Candidate Program along the lines of some of the flexibilities that have been granted to us. We have created, and particularly to respond to some of the complexities in training, an HHS University. This university has eliminated many of the redundant training programs and increased training opportunities for all employees.

At the same time we have done all of these things, we have increased the workforce diversity in the Department of Health and Human Services.

Particularly, we are very pleased with the human capital flexibilities that have been granted us, the direct hiring authorities. We now have direct hiring authority, and we are using it for medical nurses, and other related personnel. As we implement Medicare, Medicaid changes, we have direct hiring authority in that area.

And most recently, one authority that we are very excited about is the flexibility, in the case of a Secretary or Presidential emergency, to directly hire individuals who can respond to geographic and State needs. This cuts across a lot of professional and nonprofessional areas, but it means that we can develop rosters of individuals who can respond to emergency needs almost on a minute's notice. We can start putting those rosters together and, called upon, we can deploy literally thousands of people in particularly geographic areas who are employees of the Federal Government.

One issue that we are having a little bit of trouble with is the categorical rating. We are working with other agencies. We think it is a good flexibility. It is just taking us a little longer to utilize than some of the others, but we hope in 4 or 5 months to have it up and running and being used by this Department and other agencies.

I would like to end my brief comments here just on one note. It was raised earlier. We are still not being able to capture and recruit the individuals right out of their baccalaureate degree. This is a future strength that we need to attend to. We need to make sure that we have the flexibilities to do this. And the way the currency system is weighted, it is very difficult for a person with minimal experience and just a baccalaureate degree to come into the Federal Government.

In conclusion, Senator, we are very excited about the cultural changes that these flexibilities are bringing to our Department, and we look forward to working with you in the future.

TESTIMONY OF JOANNE W. SIMMS,[1] DEPUTY ASSISTANT ATTORNEY GENERAL FOR HUMAN RESOURCES AND ADMINISTRATION, U.S. DEPARTMENT OF JUSTICE

Ms. SIMMS. Good morning, Chairman Voinovich. Thank you for the opportunity to testify today. We appreciate and share your interest in improving the management of human capital in our Department and throughout the Federal Government.

Since September 11, the Justice Department has undergone a significant transformation in its mission, with a focus on finding and bringing to justice the perpetrators of terrorism and preventing terrorist acts in our Nation. This new mission has been added to our crucial mission areas, including enforcement of Federal laws and protecting the interests of the American people, assisting local, State, and tribal governments in preventing and reducing crime and violence and ensuring the fair and efficient operation of the Federal justice system.

It has been our goal to implement strategic human capital efforts that guarantee a workforce capable of delivering this mission. To that end, the Department has focused substantially on revitalizing the partnership we have in place with our components to achieve an integrated vision for and set of human capital policies and programs.

In terms of organizational culture, this partnership has resulted in a dramatic departure from past practice. Agencies are now functioning as one, a complete entity, and that is our vision as well. I am pleased to report that we have successfully worked with our components in developing policies and programs that meet their needs and the Department's needs, as a whole, in human capital planning and management.

In September 2002, the Department issued a comprehensive Human Capital Strategic Plan, and in less than 2 years, we have accomplished the majority of our planned initiatives. Specific achievements are many and varied, as noted in my prepared statement. I would like to emphasize that through your work, and that of the Subcommittee, in concert with the administration and the President's Management Agenda, our Department has made significant and meaningful progress in projecting its workforce needs and in creating and implementing plans to address problems before they negatively affect our mission.

In the past 18 months, we have conducted a thorough workforce analysis and planning review, with an emphasis on identifying skill gaps. We have launched the first departmentwide SES Candidate Development Program in 20 years to ensure a pipeline for projected SES vacancies. We had over 200 applicants for what we had originally advertised as 25 vacancies, and we are currently in the process of expanding that because of the interest shown in the program.

We have completely revamped our performance management systems for SES and GS employees, ensuring that mission and organizational objectives are described in performance work plans and that results are recognized and rewarded.

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[1] The prepared statement of Ms. Simms appears in the Appendix on page 76.

These are only three examples of the many improvements we have made. Beyond our overarching human capital plans, we have also sought to make full use of the flexibilities you afforded us in the enactment of the homeland security legislation.

For example, I assumed responsibility as the Department's Chief Human Capital Officer in May 2003. Justice is one of the six agencies that OPM talked about earlier that sought and received approval for direct hire authority for critical needs primarily in our Criminal Division. This year, eight Justice components requested and were approved for voluntary early retirement authority, and three of those components requested and received voluntary separation incentive payments authority.

This flexibility has enabled us to address funding shortfalls, realign our workforce to reduce skill gaps and restructure organizations to meet changing mission needs and priorities. The student volunteer transit subsidy was deployed and is a great resource for interns who work with the Department for short periods of time.

The Department has made limited use of the academic training provision primarily in our Executive Office of U.S. Attorneys. EOUSA established an intern program that provides the payment of academic training while the employees provide Agency support. This program was successfully piloted, and these flexibilities are providing the much-needed information technology skills for the Agency.

In 2003, we provided student loan repayment assistance for 63 employees, at a cost of $300,000. This year, we look to double the number of participants, and I can tell you that I personally participated in 2003 and 2004 in reviewing well over 200 applications for the slots and funding that we had available—a very successful program.

As you know, our employees do a superb job maintaining the security of our citizens and enforcing the rule of law. We are confident that you agree that they deserve the best support we can give them as they perform their jobs on our behalf. Above all, providing us the ability to ensure fair and equitable treatment in pay and benefits for all professionals in the Department is essential to maintaining a stable, satisfied and high-performing workforce.

We are pleased with our progress, and we are optimistic regarding efforts to ensure a future workforce, capable of meeting challenges for the Department and for our Nation.

In closing, I would like to acknowledge the report on law enforcement pay and benefits released by OPM on July 16. We believe the issue of inconsistent pay, benefits, and roles of law enforcement personnel is a serious one, a problem with substantial impact on our operations and management of our workforce and ultimately our mission delivery.

We look forward to working closely with you, and with OPM, as the recommendations in the report are considered, and these problems are addressed.

Thank you for this opportunity to appear before you. I will be pleased to answer any questions that you may have.

Senator VOINOVICH. Thank you, Ms. Simms. Ms. Novak.

TESTIMONY OF VICKI NOVAK,[1] ASSISTANT ADMINISTRATOR FOR HUMAN RESOURCES, NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

Ms. NOVAK. Good morning, Mr. Chairman. I am the Assistant Administrator for Human Resources at NASA and NASA's Chief Human Capital Officer. I am delighted to be here this morning to discuss the programs and initiatives that NASA has undertaken to address the Agency's human capital challenges, including our use of new workforce flexibilities.

Let me begin by expressing our appreciation on behalf of Mr. O'Keefe, our administrator, for your leadership and support in the area of Federal human capital management, both governmentwide and on behalf of NASA. We appreciate all you have done and look forward to continuing to work with you.

You are already familiar with the challenges that NASA has faced with respect to its workforce. We are experiencing skills imbalances due to downsizing, anticipated loss of experience and knowledge due to projected retirements, and fewer qualified science and technology workers in the education pipeline, as well as increased competition for such workers.

We at NASA have been very engaged over the last several years in addressing our human capital challenges so that we can assure that we continue to have a high-performing workforce with the competencies that the Agency needs to achieve our challenging mission.

As I have said many times, in many forums, while I serve as the Agency's Chief Human Capital Officer, responsibility and accountability for effectively managing NASA's human capital resource is shared throughout all levels of the Agency.

Two years ago, we produced a Strategic Human Capital Plan, as well as a companion Strategic Human Capital Implementation Plan, which created for us an integrated, systematic approach to assuring that the Agency continues to achieve and retain the workforce that it needs. The Strategic Human Capital Plan is a flexible, long-term plan, capable of accommodating changes in mission and program direction. It identifies human capital goals, strategies and improvement initiatives in areas where we feel improvements are most critical and necessary for the Agency.

The implementation plan, which is updated periodically, provides action plan and metrics for achieving the Agency's human capital goals.

Ensuring that NASA has state-of-the-art competence 10 years from now in emerging and cutting-edge technologies is a challenge. A critical element of our enhanced workforce planning and analysis is our competency management system. This was developed as an initiative under the Strategic Human Capital Plan, and it provides NASA our first-time-ever agencywide inventory of workforce competencies needed to accomplish our mission. It helps us to better identify, manage and report the competency strengths and needs, and it also helps us target recruitment, retention, training and workforce development and succession planning in a more focused and integrated way.

[1] The prepared statement of Ms. Novak appears in the Appendix on page 80.

We have also enhanced our recruitment efforts. In addition to our individual field centers' recruiting, we have established an active corporate recruitment effort targeted at at-risk competencies identified using our competency management system.

This year, in the fall and also in the spring, NASA's senior leaders and managers participated in 18 recruitment events throughout the country, including on-campus visits, and we extended tentative offers to entry-level employees—well, to about 150 entry-level employees. And the very good news is those who have accepted to date are a very diverse group.

We have also improved our hiring mechanisms. We have an on-line, automated recruitment system we call NASA STARS, which gives applicants the convenience of applying on-line. It has reduced the time to fill vacancies by over 35 percent and enjoys an extremely high satisfaction rate among applicants for its ease of use.

We also have interrelated performance management and awards and recognition programs which link to our Agency human capital programs and support mission accomplishment. We have explicit selection and performance criteria, which hold members of NASA's senior executive service directly accountable for performance results and for the effective management of human capital. We select, promote, appraise, and reward our senior executives based on these criteria.

These requirements further cascade down to the non-SES supervisors and have been tailored and cascaded down to the rest of the workforce as well.

Leadership development is an area where we spend a lot of time and attention. We have a leadership development strategy that we have implemented around OPM's executive core qualifications, as well as around our SES performance criteria and a NASA leadership model. We have a very robust set of leadership programs such as the SES CDP program, which has been a very effective pipeline to filling our key leadership positions.

Let me turn to the workforce flexibilities. As you know, we have sought and obtained additional workforce flexibilities to help us recruit and retain the talent we need, and we are also making use of governmentwide flexibilities that Congress has provided.

The flexibilities in the Homeland Security Act have been, and will continue to be, very useful to NASA in addressing its human capital challenges. Two significant provisions in the Act that have been very beneficial in the past year to us in reshaping our workforce have been the buy-out authority and the voluntary early retirement authority.

We anticipate continued use of these tools to rebalance the workforce to align with our program needs and shifting priorities, particularly with the New Space Exploration Vision that we have to implement. We expect as many as six or seven buyouts and early outs in the coming fiscal year at our field centers as we rebalance our workforce.

We are also very much looking forward to using the category rating system. We have long supported this provision, and we have worked with our field centers to develop implementing policies. Our NASA STARS evaluation process is in the process of being reprogrammed now so that we will be able to accommodate category rat-

ing in the next several months, and we expect to be aggressive in using that authority.

In February of this year, of course, we were blessed with the NASA Flexibility Act of 2004, which gives our agency additional tools to help us address the specific workforce challenges we are facing. We are very grateful to you, Mr. Chairman, and to your Subcommittee in supporting this legislation.

The law required that NASA submit a workforce plan approved by the Office of Personnel Management to Congress 90 days prior to exercising any of the new authorities. The 90-day waiting period ended less than 2 weeks ago on July 8, so we are in the very early stages of using these new authorities in connection with recruitment and retention initiatives. Nevertheless, our field centers and our senior managers were prepared to take action as soon as the flexibilities became available. Already several of our centers have issued vacancy announcements to fill positions under the new flexible term appointment authority that we received in the Act.

Last week, two field centers offered the enhanced annual leave benefit to two prospective new hires as an incentive to accept our job offers. One center also offered the enhanced travel and relocation benefits to a candidate who has now accepted our offer and will be reporting to work at NASA in several weeks.

Last, another center in a high-cost area has offered the enhanced travel benefit to attract two individuals with exceptional expertise to fill positions that have actually remained vacant for over 2 years. So, while we are just beginning, we think we are going to be very aggressive in the use of these new tools, and we know that they are going to help us in a great way.

In closing, let me say that the human capital flexibility Congress has provided, along with the human capital programs and initiatives we are pursuing at NASA, are designed to improve the effectiveness of our human capital management and to maintain NASA's position as an employer of choice. While individually they can be powerful tools to address the Agency's workforce challenges, we believe it is in the integration of them, with each other and with our Agency's mission, goals, and objectives, that we will achieve the best results.

Thank you very much, and I look forward to working with you in the future.

Senator VOINOVICH. Thank you very much. I am very impressed with what NASA has been able to accomplish.

Ms. Simms, you heard the testimony from Mr. Johnson and Mr. Blair. Preceeding the Federal Law Enforcement Pay and Benefits Report was a 1993 report. This is 11 years later, and nothing was done after the 1993 report. There are some real problems in your Agency, as I have heard from other committees.

What are you going to do to make sure that this is just not another report that lays on the shelf?

Ms. SIMMS. I think, for those who take a look at the report, they will see right away the Department's commitment to ensuring that pay and benefits for the law enforcement community is taken seriously.

One of the things that we pushed for very strongly, and are very pleased it ended up in the report, is that anything that is done by

OPM, with respect to law enforcement, is done with the concurrence of the Attorney General. That language was specifically requested by the Department of Justice because we are committed to moving that whole effort forward. So, in working jointly with OPM, we will ensure that law enforcement pay and benefits, to the extent that they can be, are consistent across the board. We are very much concerned about Homeland Security or DOD, as TSA did in the past, raiding other agencies when they set up their particular programs.

It is our wish or our primary concern that we ensure as much flexibility as we can for agencies in being able to determine what is the appropriate pay level, not only taking into account the location, but also the caliber of the individuals that we wish to attract and retain.

Senator VOINOVICH. Some law enforcement groups have argued that establishing a performance-based pay system for their members may be difficult to achieve. For instance, they argue that developing measures of performance based on criteria, such as number of arrests, may not be a valid indicator of successful performance. In your opinion, can a system for performance-based pay be created for Federal law enforcement officers?

Ms. SIMMS. I think it is something that we should seriously take a look at. We are concerned about where our officers are, our agents, what they are doing, and certainly the input of the unions, the employee representatives, will be very important to this process.

Senator VOINOVICH. Do you have any idea of what key indicators you would look at to show they are doing their job?

Ms. SIMMS. Well, there are a multitude of key indicators that we could take a look at. I think what is most important is what is going to provide us with the most information in being able to make the appropriate decisions. The number of cases are relevant, certainly, but there are some cases that are more difficult to handle than others, and they will take longer. So it is not just the number that we should be looking at. We should also be looking at the quality of the case and the results of what comes out of all of that. So I think there are a number of measurements that can be brought to bear.

Senator VOINOVICH. Do you know if there are any benchmarks around the country, in terms of Pay for Performance with law enforcement?

Ms. SIMMS. I am not currently aware, but I certainly think it is something that the OPM, as well as the Department of Justice and other agencies with law enforcement interests should be taking a look at.

Senator VOINOVICH. Maybe GAO——

Ms. SIMMS. GAO?

Senator VOINOVICH. Mr. Mihm, can you help them?

Mr. MIHM. Mr. Chairman, the issue for Pay for Performance for law enforcement personnel, as Joanne is saying, is obviously an extremely sensitive one, and you do not want to create goals that create the wrong types of incentives—such as goals on the numbers of arrests. As one law enforcement put it to me, he said, "Oh, we

know how to meet that, if that is the goal, and it probably would not be pretty."

What you would want to do is to recognize and reward for competencies rather than results; that is, you figure out what are the individual competencies that are most closely related to a successful law enforcement officer, and then you pay the individuals to the extent that they demonstrate and develop those types of competencies. That gets you out of the trap of creating the wrong types of incentives, and in a positive way, gets you to pay for what has been shown to be positively related to good law enforcement. So it is a difficult issue, but it is not one that cannot be broken down.

Senator VOINOVICH. Your agency has a lot of responsibility, but I know reforms for the FBI are long overdue. I am also concerned about the number of people that you have to get the job done. You have taken on additional responsibilities, with the highest priority on homeland security, but the traditional work of the FBI needs to be done.

One of the concerns I have, and this stems from a hearing that we had in the Foreign Relations Committee, of which I am a member, was the issue of organized crime and corruption. I was quite taken back in regard to the activity of the Russian mafia in the United States. When I asked the question about whether or not the FBI has the wherewithal to get the job done, the answer was, no. I would like to know whether you have looked at the workload and determined whether or not you have got the right number of people to get the job done, and if that is reflected in your request to the administration for funding?

Ms. SIMMS. The answer to your last question is, yes, it is reflected in our request for funding. FBI is one of the, if not the, largest agency within the Department of Justice. There have been many conversations with the leadership, with Mueller, with Gephardt, with Mark Bullock, who is my peer there, regarding their needs and how they are looking at their workforce planning and structuring.

The one thing that we are most proud of is that the FBI is partnering with the rest of the Department in managing their skills and providing an analysis of where their skill gaps are, their recruitment processes, as well as their ability to not only take a look at the overall performance, but how they can shift or how they will be shifting their priorities going forward. Terrorism is No. 1, but we recognize that the FBI must continue to do all of those other things that they are tasked with.

And as much as we are looking at terrorism and counterterrorism efforts, we cannot afford not to pay attention to those. It is one of their continuing priorities as well.

Senator VOINOVICH. Good. The other one I mentioned earlier in my remarks, and that is locality pay and the complaint that I have. I mentioned Van Harp, from Cleveland, who came here, and they give him an extra $26. And you also have a real problem in the FBI in terms of the number of people who are eligible to retire or take early retirement, which is another issue that has to be looked at.

Ms. SIMMS. The FBI exercises a number of the flexibilities that we have, in terms of recruitment and retention, relocation benefits,

more so probably than any other component within the Department. They have utilized those flexibilities for several years now and continue to do so.

The locality pay issue we know is prime on everyone's plate because the FBI moves its agents around in order to gain experience, in order to be able to move them forward into their SAC positions. Even in looking at the SES Pay for Performance effort, we took a look with respect to their SESers and the impact that would have because locality pay, given the changes, is no longer available for SESers within the FBI. So that has been a primary piece of the plan that we have put together and received approval from by our Attorney General and are moving forward to OPM with.

Senator VOINOVICH. Mr. Mihm, we are talking about Pay for Performance. We know it is easier said than done. Eight months have passed since we passed the legislation and regulations have not been issued. Have you seen agencies beginning to prepare for the transition? Do they understand what this means?

Mr. MIHM. Certainly, we are beginning to see them prepare for the transition. We, at your request, did a body of work looking at leading practices in executive performance management both here and overseas, synthesized that down into a report and set of practices, and then assessed the performance management systems of a number of agencies against those practices.

And we found, not surprisingly, that agencies are making good progress in terms of putting in the general or the basic infrastructure, but much more needs to be done in order to align individual executive performance to the organizational goals, and that is the most important part. While pay for performance is good, dollars matter, obviously, in the final analysis, especially for people in the public sector, they come to government to maximize their self worth, not their net worth.

And so the way you motivate, the way you get improved performance, is linking individual and unit goals to organizational results, at creating this so-called line of sight. When that is done, then you can overlay a Pay for Performance scheme on top of that, and then you get additional benefits. But it is that alignment that takes time, and it is the alignment that is so difficult. That is still a work in progress for many agencies.

Senator VOINOVICH. Well, we are going to continue to ask you to look at that because I want to make sure that when they move on it, that we have got the training in place so that it is done, and it is done right. If it is not done right, it will be a disaster, and it will discredit the whole issue, and we will not be able to move forward with it.

I was very glad that, after visiting with the Department of Defense, they have reevaluated their October deadline and now have, with the help of Navy Secretary Gordon England, put a plan in place that they are going to cascade implementation over a long period of time.

Mr. MIHM. Yes, sir.

Senator VOINOVICH. But their announcement they were going to implement NSPS by October, I thought they would have a nuclear explosion. [Laughter.]

It is interesting that, Dr. Sontag, you were indicating that you still cannot hire undergraduates with a baccalaureate, that is, you do not have the power to hire them on the spot. I know that we have given NASA the authority. Have you used this yet?

Ms. NOVAK. Yes, sir. We have not used that particular provision yet. That is one of the ones that we got in the Workforce Flexibility Act that we will be able to use here shortly.

But we used this in our past corporate recruitment effort last spring and last fall, we used the Federal Career Intern Program, which is an authority that is available to everybody, and we were very successful in getting——

Senator VOINOVICH. What program did you use again——

Ms. NOVAK. It is the Federal Career Intern Program. It is one of the programs out of OPM. And we were very successful in attracting, as I mentioned, about 100 fresh-outs or entry-level employees into the workforce using that. And that, coupled with our automated, on-line application system, allowed us to actually bring people or make offers to people within 3 to 5 days and, in some cases, almost on the spot.

Senator VOINOVICH. And you do not have that authority, Dr. Sontag?

Mr. SONTAG. I do not believe we have that specific legislative authority. The issue that I was talking about was the fact that when we go to recruit GS–5s and GS–7s, at an entry-level level without an internship program, without one of the special programs that we utilize, experience weighs very heavily in the current assessment instruments that are used. It is that weighting of so much experience that almost precludes a person just fresh out of a baccalaureate degree.

Senator VOINOVICH. I hear that all the time from people. They say I get the application—I am talking about young people we are trying to get involved—and that is a real problem then, is it not?

Mr. SONTAG. Yes, sir. That is one we would like to work with OPM and the Congress in addressing.

Senator VOINOVICH. I see, Mr. Dovilla, you are in the audience here today. Have you heard that complaint, also?

Mr. DOVILLA. From students, sir?

Senator VOINOVICH. Yes.

Mr. DOVILLA. It is certainly an issue, and it is one the OPM and the agencies are working on, but one of the things I was just commenting to my colleague here on was a targeting of the people that we are looking to bring in, whether or not they are interested in coming in as G–5s or G–7s or at a higher grade with a baccalaureate degree.

So we need to look at, in terms of competitive pay, in addition to desire to serve and make a difference in the program.

Senator VOINOVICH. I would like the council to really work on that to see if we cannot do something about it.

I have lots of other questions, and I would like to wrap this hearing up at 11 o'clock. I guess the real important question is has legislation and the President's Management Agenda worked? Ms. Novak, how long have you been with NASA?

Ms. NOVAK. I have been with NASA for about 15 years, and in my current position for 6 years.

Senator VOINOVICH. Ms. Simms.

Ms. SIMMS. I have been with the Department of Justice for 6 years and my current position for about 2½ years.

Senator VOINOVICH. Dr. Sontag.

Mr. SONTAG. I have been with Health and Human Services for 3 years, although I started my government career with HEW in 1972 and worked for Governor Thompson when he was governor of Wisconsin.

Senator VOINOVICH. The real question is has human capital, human resources been elevated during the last couple of years so that people are paying attention to it?

Ms. SIMMS. I would answer yes to that. Although I have only been at the Department for 6 years, I have been in the government for 36 years. So I have a long history of taking a look at where we were versus where we are. For a number of years, the Human Resource Officers were talking about having a seat at the table. I think we can honestly say now that we have a seat at the table.

Senator VOINOVICH. And people do understand at the Justice Department how important it is that you have the right people with the right knowledge and skills, at the right time, at the right place.

Ms. SIMMS. Clearly, beginning at the Attorney General's level all the way down.

Ms. NOVAK. If I may jump in, I would like to say yes, also. At NASA, clearly, things are much different. Strategic human capital management really matters, and it is not just a human resources program, but it is something that starts at the top level with our administrator and cascades down. It was not just the President's Management Agenda that was the driver; it was also a realization, as we looked at the workforce demographics, that we needed to attend to some of the problems that we have. And it is really right. It is the linchpin of just about everything we do now.

Senator VOINOVICH. You have a real urgency there. Mr. Mihm's how many years was NASA on your high-risk list——

Mr. MIHM. Pretty much from the beginning, sir. I think that probably from the early 1990's on the contract management part on the high-risk list.

Senator VOINOVICH. Yes.

Mr. MIHM. It is a heavily contracted agency, and so it has been an enormous challenge for them. The question you are raising about whether we are giving more attention to human capital, the answer to that is unmistakably yes. There is much greater attention across government.

For years the rhetoric has always been people are our most important asset, and yet what do we do when times are tough? Just as you pointed out in your statement, we cut training, we cut recruitment, we cut hiring initiatives during tight budget times. We are seeing changes to that now.

We are beginning to really appreciate that if people are our most important asset, if we do the government's work with our people, that means we need to invest in them, we need to value them, and we need to reward them. And that is what the PMA and all of the legislation that you have put in place has been about: To underscore that type of thinking within agencies. We are seeing it across the board with the Executive Branch, notwithstanding the progress

that still needs to be made. There has been enormous progress made over the last couple of years.

Senator VOINOVICH. Good. They are serious.

Mr. MIHM. Yes, sir.

Senator VOINOVICH. Good. Because, as I say, if I am around, I am going to stay on this issue. I think that it is the most important thing that we can possibly do for our country is to have these people that we have, to keep the really good people, reward them, make the Federal Government an exciting place to come to work. We need young people in this country wanting to come to work for the Federal Government and not only to make a difference and serve their country, but also to be compensated fairly and look at the Federal workforce as a chance to grow in their lives and continue to make a contribution.

Mr. MIHM. Well, sir, and just on the oversight point, there is that line in large organizations, "What gets measured gets managed." There is also a line in Washington, "What gets overseen gets managed."

And so the oversight that this Subcommittee has shown, and obviously other committees over on the House side, sends clear, unmistakable messages to OPM, OMB, GAO, the agencies about the importance that Congress puts on investing in people that is, questions will be asked, progress will be measured, and people will be held accountable. That is exactly the types of messages that need to be sent and need to continue to be sent.

Senator VOINOVICH. Mr. Mihm, do you think OPM is moving fast enough or do you think they still have some problems that need to be worked out?

Mr. MIHM. Well, we think the Chief Human Capital Officers Council is vitally important to continuing to make progress on that and on the whole range of issues. And that was one of the great reforms that was put in place.

We know from the CFO Council for financial officers, and the CIO Council for information officers, that there are models of how you can use these councils to both generate ideas and test ideas. OPM, in recent months, we have heard, has begun to use this council in far more strategic ways. Some of the early rollout was seen as a bit of a transmission belt—come, and we will tell you what we are doing. Now, it is much more of a collegial exchange of ideas.

Certainly, in the hiring initiatives that you asked about earlier, we reported in our April survey, of some of the problems that the Chief Human Capital Officers were seeing with OPM guidance. Since then, there has just been an explosion of initiatives, as you have heard from Deputy Director Blair, in terms of the training, the capacity building, the regulations that have finally come out. They are active on a whole range of issues.

We think that, just to circle back, that the Chief Human Capital Officers Council, using them and recognizing the value of the Chief Human Capital Officers as change agents within their agencies, needs to continue to be nurtured because that is really where we are going to get the leverage points.

Senator VOINOVICH. Thank you. I would like to thank all of you for coming today. I have not read all of your testimony. I want you

to know I am going to read it. I have other questions that I would have liked to have asked, and I will submit them to you in writing, and I would hope that you would respond to me.

Thanks, again, and thanks for the great job that you are doing. It is exciting to hear what all of you are doing in your respective agencies.

The hearing is adjourned.

[Whereupon, at 11:02 a.m., the Subcommittee was adjourned.]

APPENDIX

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF **MANAGEMENT** AND BUDGET
WASHINGTON, D.C. 20503

Statement of the Honorable Clay Johnson III
Deputy Director for Management
Office of Management and Budget

before the

Subcommittee on Oversight of Government Management,
the Federal Workforce, and the District of Columbia

of the

Committee on Governmental Affairs
United States Senate

July 20, 2004

The Federal government is focused on results and so are its employees. The American people expect it of us. We ask ourselves if we're accomplishing the desired goal, at an acceptable cost, and if the answer is "no" or "we don't know", we do something about it.

The Federal government is adopting human capital practices that ensure a focus on results. With the help of the President's Management Agenda, and the Strategic Management of Human Capital initiative in particular, agencies are deploying key tools to ensure we have the right person, in the right job, at the right time, performing well. Of the agencies rated on the Executive Branch Management Scorecard, which represent almost 97 percent of the Federal civilian workforce:

- Ninety-two percent of agencies have strategies for ensuring that they are developing future leaders.
- Ninety-six percent have identified skills gaps in critical occupations and 77 percent are working to reduce or eliminate them.

- Sixty-five percent of agencies have performance evaluation systems that more clearly define what's expected of each employee and how they are performing relative to those expectations.

It's most important that agencies are increasingly clarifying what's expected and holding employees accountable for meeting those expectations. In focus groups I've moderated in ten different agencies, managers tell me that they welcome the improved evaluation processes, in that:

- Our employees deserve to have greater clarity regarding how they are serving the public, which is primarily what they are here for.
- Most employees want to do a good job, but need to know what a "good job" is.
- Goals are energizing.

Of course, there are human capital challenges we can not overcome just by managing better or being more results oriented. When the President thought it was critical to have additional tools to overcome those challenges, he asked Congress for them. With regard to the Departments of Defense and Homeland Security, the Administration requested and Congress granted significant flexibility in hiring processes, compensation systems and practices, and performance management so that these Departments could recruit, retain, and develop the workforce they needed to accomplish their critical missions in the 21st century. The new personnel systems being designed and adopted by the Departments of Defense and Homeland Security will work. We will make sure they do; their success is too important to our pursuit of a 21st Century workforce.

I am proud of the progress we have made in Federal human capital management in the last several years. We are left, in my opinion, with two big questions to deal with.

The first question is how personnel flexibilities should be expanded to the rest of the Federal Government. Should it be piecemeal, with confusing differences in the personnel management practices at agencies across government? Or will it be more thoughtfully extended to all agencies at once?

Clearly, I would recommend that we consider making available to the government's remaining agencies the flexibilities necessary to improve hiring processes, compensation systems and practices, and performance management so that they can recruit, retain, and develop the workforce they need to accomplish their missions. If not provided in a uniform way, it is difficult to guard against imbalances that are created when competition exists between agencies for limited

talent. One thing I know for sure: it's not a question of whether these flexibilities will be granted more broadly to agencies, but when.

The second question we must confront is when to most responsibly pay employees of the Federal Government. Today, we have targeted, not widespread, recruitment and retention problems in our civilian workforce, and pay surveys reveal that we are currently *overpaying* employees in some occupational groups in some locations. We will eventually give agencies the tools they need to target salary increases where they need them to address specific recruitment or retention needs. If we are to achieve the 21st Century workforce that the American people deserve and expect, we certainly should not grant all civilian employees the same increase no matter what the need because that wouldn't be focusing on the desired result: that would be providing too small an increase where we do have recruitment and retention problems, and too large an increase where we do not have a problem. We should be spending money where we need to, and not where we don't. We will eventually do this; we just need to decide when and in what series of steps.

If we answer these questions correctly and continue the progress of the last several years, we have the potential to achieve the 21st Century workforce we desire, not in decades, but in a handful of years. I think this enhanced focus on results will bring about the most dramatic improvement in government operations ever. That's what the American people deserve.

United States
Office of
Personnel Management Washington, DC 20415-0001

Statement of

The Honorable Dan G. Blair
Deputy Director
U.S. Office of Personnel Management

Before the

Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia
Committee on Governmental Affairs
United States Senate

On

Building the 21st Century Federal Workforce: Assessing Progress in Human Capital Management

July 20, 2004

Good morning, Mr. Chairman and Members of the Subcommittee. It is a great pleasure to appear before you today on behalf of the Director of the Office of Personnel Management, Kay Coles James, to discuss the progress in human capital (HC) management in the Federal Government. Under your persistent leadership, Mr. Chairman, the support of all committee members and certainly the dedicated effort of Senator Akaka, we have seen the most productive period of Executive and Legislative branch cooperation and achievement on civil service matters since the Civil Service Reform Act of 1978. That achievement is chronicled in the Chief Human Capital Officers Act, in Governmentwide and agency-specific human resources management flexibilities enacted into law and pending consideration, and in a framework of accountability and assessment for using those flexibilities fairly and responsibly. In providing an assessment of the progress in human capital management, I would like to address these three, interdependent dimensions – leadership, flexibility, and accountability - of the evolving and enduring American civil service.

The Chief Human Capital Officers (CHCO) Act of 2002, which was championed by you, Mr. Chairman, is perhaps the most critical change. It has elevated human capital management to its proper place as a strategic issue critical to agency mission accomplishment and ensures coordination and cooperation among agency CHCOs. The CHCO Act – in requiring agency-level designation, prescribing key responsibilities, and in establishing a Governmentwide CHCO council chaired by the Director of OPM with the Deputy Director for Management of the Office

of Management and Budget serving as vice chairman - signaled a cultural change in the strategic importance of managing people in the Federal Government.

The passage of this important legislation as part of the Homeland Security Act reconfirms a goal we all share: providing a Government of service to the American people as envisioned by President George W. Bush in his Management Agenda. That strategy, released in August 2001, includes as its first Governmentwide initiative the Strategic Management of Human Capital. OPM is the agency responsible for driving this key management initiative, advising Federal departments and agencies on human resources flexibilities, and holding them accountable for their human capital management practices. Under the President's leadership, agencies are focused, like never before, on strategically managing the civil servants in their workforce – their human capital. The CHCO Act of 2002 is adding value to the public policy dialogue on the future of America's civil service. Demonstrating a long-standing need for attention to be focused on human resources issues at the highest levels of management, several agencies not listed in the Act embraced the spirit of the legislation and designated CHCOs as well. These agencies include the Central Intelligence Agency, the Federal Labor Relations Authority, the Internal Revenue Service, and the Peace Corps.

As the Council marked its first anniversary this past May, it already has assumed a prominent place among the interagency management councils that are helping to drive the initiatives of the President's Management Agenda (PMA) and implementation of enacted flexibilities. In short, this important law is having a positive effect on how we manage the Government's most important resource – people. Since last June, the Council has met seven times, adopted a charter, established an Executive Committee to help steer the Council and five initial subcommittees to address important Governmentwide human capital issues, conducted a two-day retreat at OPM's Federal Executive Institute in Charlottesville, Virginia, drafted a tactical plan for the current Fiscal Year, and created a CHCO Academy as a forum for Council members to learn from one another and share best practices in an informal setting. We also appointed an Executive Director, someone you know well, to oversee the Council's daily operations. The Academy, which meets on a monthly basis, has considered topics such as current workforce flexibilities in title 5, United States Code, and associated regulations, human resources competitive sourcing, compensation reform, and hiring reform.

Not only has Congress given human capital management a prominent place in agency affairs, Congress has provided both additional, flexible tools – Governmentwide and agency-specific - and increased accountability in using those flexibilities. Director Kay Coles James and I believe it is critical that accountability always accompany flexibility to ensure that the flexibilities are used responsibly and with the vision of strategic management in mind. One of those tools is an expanded, but targeted, direct-hire authority for a severe shortage of candidates or a critical hiring need. This authority permits agencies to hire qualified employees "on the spot," without putting them through a formal rating and ranking process. It gives agencies a vital new tool for rapidly addressing pressing hiring needs.

Agencies also received authority to utilize a streamlined approach to rating and ranking applications for Federal jobs. This new approach, called category rating, is the first significant change in the process for evaluating Federal job applicants in over 50 years. It is a procedure that maintains veterans' preference and allows agencies to place candidates in broad quality groupings, rather than assigning candidates actual numerical ratings. It may also give the selecting official more candidates from whom to select, rather than limiting him or her to just the

top three, as is the case with the traditional system. The bottom line is that the quality of applicants can be maintained and veterans' preference in hiring is preserved, while potentially expanding the pool of hires of veterans and non-veterans alike from which the selecting official can choose.

OPM has and will continue to actively guide, support, and evaluate agencies in their use of these and other flexibilities. In this year, we have granted agency-specific direct-hire authority to six agencies and are currently reviewing two other requests. This month we granted direct-hire authority to the Department of Defense for auditing positions in the Office of the Deputy Inspector General for Auditing. These authorities are in addition to the Governmentwide authority granted by OPM last year. These authorities will provide agencies with a streamlined process to quickly get individuals with mission critical skills on board.

The Office of Personnel Management has initiated aggressive efforts to streamline and reform the hiring process within the Federal Government. These include enhancements to OPM's USAJOBS vacancy listing, and major efforts to reach out to students, veterans and the public at large through a number of initiatives, including a series of recruitment fairs across the country.

In May of this year, we began the first in what we anticipate will be a series of cooperative efforts between OPM and agencies to improve hiring. Working directly with the senior leadership and human resources (HR) staff of the Department of Housing and Urban Development (HUD), OPM has provided its knowledge and expertise by completing a process map of the agency's entire hiring program, conducting field and headquarters focus groups, and has assisted in developing a process re-engineered to improve HUD's hiring program.

A key to the proper use of flexibilities Congress has granted is education and training of the Government's HR leadership and professionals. In addition to the daily contact between agency and OPM Human Capital Officers, OPM has done the following to educate Chief Human Capital Officers (CHCOs), human resources professionals, and managers on various flexibilities.

- In June 2003, OPM provided "Train-the-Trainer" sessions on revised delegated examining procedures with specific focus on the new category rating procedures that were available on June 13, 2003, with the Federal Register publication of OPM's interim regulations.

- In July and August of 2003, OPM hosted several briefings for HR executives and specialists on the new flexibilities, including on-site presentations at the Environmental Protection Agency's HR Directors Conference and a Department of Defense Conference in Massachusetts.

- At our June 17, 2004, CHCO Academy meeting, OPM offered a review of hiring authorities and flexibilities applicable to veterans, students, and recent college graduates. The meeting also focused on direct-hire authority and category rating. We also provided flexibilities information at the February CHCO Academy meeting.

- On June 29, 2004, OPM hosted a training symposium for agency CHCOs and human resources professionals from 30 Federal agencies on hiring flexibilities currently available to improve the Federal hiring process. The all-day symposium featured sessions on various hiring flexibilities, including sessions on veterans hiring and student

and excepted service employment authorities as well as direct-hire Authority and category rating.

We will continue our training efforts by conducting additional Hiring Flexibilities Symposiums, and utilizing Federal Executive Boards as a conduit for bringing this training to the field. The June 29 event was so successful (over 230 attended), that OPM is making plans to repeat the Symposium on August 3 and to visit 26 Federal Executive Board cities and conduct a similar presentation. Moreover, we plan to utilize e-learning technology, such as websites and compact disks, to provide additional information and training to agency staff on using flexibilities.

In the long term, OPM is looking to develop competency models for the HR field and manage a "community of practice." OPM could then share with all agencies the general nature of the competencies developed and utilize this information in our web-based GoLearn e-Government project. We also want to explore automating the Administrative Careers with America assessment tool in order to speed the examination process. And, finally, we plan to continue updating and disseminating information regarding hiring flexibilities through OPM's Human Capital Officers.

Two other flexibilities that have served both agencies and employees well are the Governmentwide Voluntary Separation Incentive Payment (VSIP) Program and expanded Voluntary Early Retirement Authority (VERA), both of which were authorized under the CHCO Act. These provide an extremely important and effective Governmentwide flexibility to agencies to assist them in reshaping and reskilling their workforces to meet their changing mission demands. Prior to passage of the Act, agencies could only offer Voluntary Early Retirement based on a need to downsize their workforce. With the signing of the Act, agencies can now request the use of VERA based on a need to restructure, reshape, and reskill their workforce. Also prior to the passage of the Act, agencies had to seek individual statutory authority to offer employees Voluntary Separation Incentive Payments. With the signing of the Act, OPM has the authority to approve agency requests to provide these payments to their employees.

- During the four-year period FY99 through FY02, agencies requested the flexibility to offer VERA or VSIP to approximately 62,000 employees.
- In the past year, OPM has processed over 225 requests for VERA, VSIP or combined VERA/VSIP requests from over 25 agencies, not counting the Department of Defense which has its own separate authority.
- Clearly, agencies are using these flexibilities as part of their overall strategic planning process and are making these offers to ensure they have the right people in the right jobs, close skills gaps and transform their workforce to meet the changing needs of the 21st century.

The Congress has also enacted agency-specific human capital legislation shaped by this committee, establishing the Department of Homeland Security (DHS), and passing your bills, Mr. Chairman, to provide flexibilities for the National Aeronautics and Space Administration (NASA) and the renamed Government Accountability Office (GAO). All of this has great and positive portent for the rest of Government and for the civil service. Nowhere has cooperation on civil service matters by the Executive and Legislative branches been more evident than in the provisions for establishing a more flexible and modern system of human resources management at DHS. This legislation preserves the foundational values of the civil service while providing

for the modernization of human resources management activities through a process of intensive consultation with agency stakeholders, close collaboration and coordination between DHS and the Office of Personnel Management communication with and notification of Congress, and final approval of the new system by the Secretary of Homeland Security and the Director of OPM. This process for developing a new system of human resources management, a similar process for the Department of Defense in developing its National Security Personnel System, is a signal achievement which ensures that the outcome will be what the law calls for – a flexible and contemporary system of human resources management that maintains the merit system principles and prohibitions on certain personnel practices.

As you are well aware, there are additional human capital flexibilities on the horizon. S. 129, which you introduced, Mr. Chairman, and which has passed the Senate, proposes some legislative changes that are sorely needed and will improve the ability of agencies to recruit high-quality individuals into the Federal service. For example, improvements to the existing authority for offering recruitment bonuses and retention allowances will make that flexibility much easier for agencies to use and will make available a broader range of bonuses in terms of the amount and the form of payment. Also, this bill would create annual leave enhancements that would help attract non-Federal individuals to the Government by permitting such new employees to earn annual leave at a higher rate than is currently the case for those who are new to Federal employment. We note that the Administration has concerns with some portions of S. 129, including the version adopted by the House Government Reform Committee, and we look forward to working with the committee as the bill continues to move forward.

As I have said before, to ensure good management, agency flexibility must be accompanied by a comprehensive effort to ensure Governmentwide accountability so that all agencies use their authority effectively and within the parameters of the merit system principles--which remain the core values of the civil service. Accountability in this Administration has taken the form of a "scorecard" on agency success in implementing the five goals in the President's Management Agenda, one of which is strategic human capital management. OPM has developed seven human capital standards of success on which agencies are evaluated as to how well they are developing strategic plans, implementing those plans, and obtaining results from them. These are indeed Olympic tests for agencies. Getting to green (our "gold") requires that agencies obtain measurable results from their strategic plans in terms of all seven dimensions. As of last year, no agency had reached green. This year, Director James was pleased to announce that seven agencies have achieved green status on human capital management.

The CHCO Act ensures that this work is recognized, perpetuated, and strengthened. While OPM has an overarching leadership role in the strategic management of the Federal Government's human capital, employing agencies have ultimate responsibility and accountability for their respective workforces.

Previously, Executive Order 13197 established two new civil service rules designed to clarify and strengthen OPM's authority to hold Executive departments and agencies accountable to the President for more effective human resources management. The rules are published in Title 5 of the Code of Federal Regulations (CFR) and can be found in parts 1 through 10 (5 CFR parts 1—10).

The rules address accountability at three levels. First, OPM may require an agency to maintain an internal system of accountability that sets standards for applying the merit principles,

measures its effectiveness in meeting those standards, and corrects any deficiencies in meeting those standards. OPM's oversight responsibilities are not limited to ensuring compliance with title 5, but include providing information to agencies and the President on the state of the merit system Governmentwide. We are doing this every day through our Human Capital Officers' consultative relationships with agencies.

Second, OPM may review any agency covered by the merit principles and report to the agency head or the President on the effectiveness of the agency's programs and practices and whether they are consistent with the merit principles. All agencies covered by the merit principles are accountable to the President and the public for adherence to those principles and should have accountability systems to ensure that their human capital management remains grounded in the statutory merit principles. We do this on a continuous basis through our agency audit review program.

Finally, all agencies must report workforce information to OPM and comply with OPM standards for the information. Effective management of the Executive branch requires all agencies (except intelligence agencies) to report workforce information to OPM, which has the responsibility for compiling Governmentwide workforce information.

The rules thus address internal accountability, external oversight, and the submission of workforce information to allow for effective management of the Executive branch. Systemizing accountability is simply a way to ensure that attention is paid on a regular basis to the efficiency, effectiveness, and appropriateness of agency HR policies, programs, and practices, and how well they support agency mission. As agencies gain additional flexibilities, it is essential to ensure that all agencies continue to operate under the merit system.

As part of this system of accountability and assessment, we have now responded, as you know, to your recently-enacted legislation requiring a report providing a comparison of classification, pay and benefits among Federal law enforcement officers throughout the Government and making recommendations to correct any unwarranted differences. This report comes at a pivotal time when the demands on Federal law enforcement agencies and their personnel are global, changing, and increasing; however, the systems of pay and benefits do not reflect this reality and remain fragmented and inflexible. Law enforcement officers today are covered by a rigid retirement structure rooted in the 1940s, an archaic classification and basic pay system that is market- and performance-insensitive, and a complex and confusing system of premium payments.

In this report, we make a case for a comprehensive, integrated Governmentwide approach for addressing the above three areas. We recommend a framework established and administered by OPM in consultation with employing agencies and with the concurrence of the Attorney General. Such a framework will permit agencies to tailor systems to meet their diverse mission requirements. All agencies would have the flexibility to make strategic human capital decisions that support mission accomplishment in a cost-effective manner. Both agency interests and Governmentwide interests would be considered and balanced. We look forward to working with the Committee in this critical area.

The United States has the finest civil service in the world. An essential element of our constitutional democracy, America's career civil servants truly represent the ideals of public service: integrity, continuity, and competence in the administration of our Federal Government, without regard to political party or election result. However, our civil service system, now over

one hundred years old, has not kept pace with the need for a system that is citizen-centered, results-oriented, and market-based. President Bush has recognized this need (indeed, he has made it one of the priorities of his Administration), and we have already made considerable progress in that overhaul. Congress, and specifically this Committee, has also recognized this need to approve legislation to provide greater flexibility and accountability for human capital management.

More remains to be done. However, any changes will require close collaboration within the Administration and with congressional leaders, employees, veterans service organizations, union representatives, managers, and other key stakeholders. Director James and I are committed to such a process, and look forward to the next wave of reform and to working with you, Mr. Chairman, and your colleagues on this vital effort.

I would be glad to answer any questions you may have.

United States Government Accountability Office

GAO

Testimony

Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Governmental Affairs, U.S. Senate

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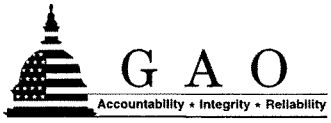
HUMAN CAPITAL

Building on the Current Momentum to Transform the Federal Government

Statement of J. Christopher Mihm
Managing Director, Strategic Issues



GAO-04-976T

July 20, 2004

GAO
Accountability · Integrity · Reliability

Highlights

Highlights of GAO-04-976T, a testimony before the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Governmental Affairs, U.S. Senate

HUMAN CAPITAL

Building on the Current Momentum to Transform the Federal Government

Why GAO Did This Study

The federal government is in a period of profound transition, forcing agencies to transform their cultures to enhance performance, ensure accountability, and position the nation for the future. Strategic human capital management is the centerpiece of this government transformation. Federal agencies will need the most effective human capital systems to succeed in their transformation efforts.

At the request of the subcommittee, this statement summarizes GAO's findings to date on agencies' use of human capital flexibilities, provides an overview of the most relevant human capital management efforts, and discusses GAO's recently enacted human capital flexibilities.

What GAO Found

While more progress in addressing human capital challenges has been made in the last few years than in the last 20 years, much more needs to be done to ensure that agencies' cultures are results oriented, customer focused, and collaborative in nature. For example, an essential element in acquiring, developing, and retaining high-quality federal employees is agencies' effective use of flexibilities. Congress provided governmentwide hiring flexibilities—category rating and direct hire—but agencies appear to be making limited use of them. The agencies and the Office of Personnel Management can use the Chief Human Capital Officers Council as a vehicle to help address crosscutting human capital challenges, such as hiring.

The following efforts to foster a strategic approach to human capital management are under way.

- **Conducting Strategic Workforce Planning**: In the wake of extensive downsizing during the early 1990s, agencies are experiencing significant challenges to deploying the right skills, in the right places, at the right time. Succession planning and management is particularly important given the demographic realities and transformation challenges agencies face.
- **Strengthening Federal Employee Training and Development**: Officials at selected agencies emphasized that they are transitioning to more formal and comprehensive planning approaches to assess skill and competency requirements and identify related training and development needs—primarily as part of broader efforts to incorporate workforce planning into ongoing strategic planning and the budgeting process.
- **Implementing Pay for Performance**: Emphasizing performance-based pay is critical at all levels of government. GAO strongly supports the need to expand pay for performance in the federal government. Recently, Congress has sought to modernize senior executive performance management systems. However, data show that more work is needed to make meaningful distinctions based on relative performance. In addition, the experiences of several personnel demonstration projects show that linking pay to performance is very much a work in progress.
- **Creating Strategic Human Capital Offices**: Congress has recognized the need for human capital offices that contribute to achieving missions and goals. Some agencies are shifting the focus of their human capital offices from primarily compliance to consulting activities for line managers. Agencies are also using alternative service delivery—the use of other than internal staff to provide a service or to deliver a product—to free staff to focus on core activities.

GAO's has begun to implement some of its recently enacted flexibilities that are collectively designed to help attract, retain, motivate, and reward a top quality and high-performing workforce.

www.gao.gov/cgi-bin/getrpt?GAO-04-976T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov

Chairman Voinovich, Senator Durbin, and Members of the Subcommittee:

I am pleased to be here today to discuss the progress to date in addressing the federal government's pressing human capital challenges. As you know, the federal government is in a period of profound transition, which is forcing agencies to transform their cultures to enhance performance, ensure accountability, and position the nation for the future. Strategic human capital management is the centerpiece of government transformation.

Chairman Voinovich, in your December 2000 report to the President, you ask "Will the federal government invest the resources necessary to compete for talent in today's information workplace and become a world-class provider of services?"[1] You continue "Successfully addressing the human capital crisis...will not come about quickly nor easily. No single piece of legislation or executive order can accomplish these goals. For this effort to be successful, it must be embraced by Congress, career managers, and the employees who are on the front lines... Without the sustained support of all of the stakeholders, this effort will fall short."

Since then, and under the leadership of this subcommittee and others in Congress, more progress in addressing human capital challenges has been made than in the last 20 years. For example, Congress provided governmentwide human capital flexibilities, such as direct hire authority, the ability to use category rating in the hiring of applicants instead of the "rule of three," and the creation of chief human capital officer (CHCO) positions and a CHCO Council. In addition, individual agencies—most recently, GAO, and earlier, the National Aeronautical and Space Administration (NASA) and the Departments of Defense (DOD) and Homeland Security (DHS)—received flexibilities intended to help them manage their human capital strategically to achieve results. These are important and positive developments.

Nevertheless, much more needs to be done to ensure that agencies' cultures are results oriented, customer focused, and collaborative in nature. At your request, my testimony today will (1) summarize our

[1]Senator George V. Voinovich, *Report to the President: The Crisis in Human Capital*, Subcommittee on Oversight of Government Management, Restructuring, and the District of Columbia of the Committee on Governmental Affairs, United States Senate (Washington, D.C.: December 2000).

findings to date on agencies' use of human capital flexibilities, (2) provide an overview of the most relevant human capital management efforts, and (3) discuss GAO's recently enacted human capital flexibilities. My comments are based on previously issued GAO reports that were developed in accordance with generally accepted government auditing standards.

Agencies Must Build the Capability to Make Effective Use of Human Capital Flexibilities

An essential element to acquiring, developing, and retaining high-quality federal employees is agencies' effective use of human capital flexibilities. These flexibilities represent the policies and practices that an agency has the authority to implement in managing its workforce. The insufficient and ineffective use of flexibilities can significantly hinder the ability of federal agencies to recruit, hire, retain, and manage their human capital. In December 2002, we reported that agencies were often not maximizing their use of the human capital flexibilities already available to them and we identified key practices that agencies can implement to effectively use such flexibilities, as shown in figure 1.[2]

[2]U.S. General Accounting Office, *Human Capital: Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces*, GAO-03-2 (Washington, D.C.: Dec. 6, 2002).

Figure 1: Key Practices for Effective Use of Human Capital Flexibilities

Plan strategically and make targeted investments	• Obtain agency leadership commitment • Determine agency workforce needs using fact-based analysis • Develop strategies that employ appropriate flexibilities to meet workforce needs • Make appropriate funding available
Ensure stakeholder input in developing policies and procedures	• Engage the human capital office • Engage agency managers and supervisors • Involve employees and unions • Use input to establish clear, documented, and transparent policies and procedures
Educate managers and employees on the availability and use of flexibilities	• Train human capital staff • Educate agency managers and supervisors on existence and use of flexibilities • Inform employees of procedures and rights
Streamline and improve administrative processes	• Ascertain the source of existing requirements • Reevaluate administrative approval processes for greater efficiency • Replicate proven successes of others
Build transparency and accountability into the system	• Delegate authority to use flexibilities to appropriate levels within the agency • Hold managers and supervisors directly accountable • Apply policies and procedures consistently
Change the organizational culture	• Ensure involvement of senior human capital managers in key decision-making processes • Encourage greater acceptance of prudent risk taking and organizational change • Recognize differences in individual job performance and competencies

Source: GAO.

We reported that agencies must take greater responsibility for maximizing the efficiency and effectiveness of their individual hiring processes within the current statutory and regulatory framework that Congress and the Office of Personnel Management (OPM) have provided.

Specifically, in regard to the federal hiring process, we recommended that OPM take additional actions to assist agencies in strengthening that process.[3] We subsequently reported that although Congress, OPM, and agencies have all undertaken efforts to help improve the federal hiring

[3]U.S. General Accounting Office, *Human Capital: Opportunities to Improve Executive Agencies' Hiring Processes*, GAO-03-450 (Washington, D.C.: May 30, 2003).

process, agencies appeared to be making limited use of the new hiring flexibilities provided by Congress in 2002—category rating and direct hire.[4] In our survey of CHCO Council members, the most frequently cited barriers that they said prevented or hindered their agencies from using or making greater use of these hiring flexibilities included

- the lack of OPM guidance for using the flexibilities,
- the lack of agency policies and procedures for using the flexibilities,
- the lack of flexibility in OPM rules and regulations, and
- concern about possible inconsistencies in the implementation of the flexibilities within the department or agency.

Since the survey, OPM has taken a number of important actions to assist agencies in their use of hiring flexibilities. For example, OPM issued final regulations on the use of category rating and direct-hire authority, providing some clarification in response to various comments it had received in interim regulation. Also, OPM conducted a training symposium to provide federal agencies with further instruction and information on ways to improve the quality and speed of the hiring process.

To address the federal government's crosscutting strategic human capital challenges, such as the hiring process, we have testified that an effective and strategic CHCO Council is vital.[5] As stated in its charter, the Council's purposes include (1) advising OPM, the Office of Management and Budget (OMB), and agency leaders on human capital strategies and policies, as well as on the assessment of human capital management in federal agencies; (2) informing and coordinating the activities of its member agencies on such matters as modernization of human resources systems; and (3) providing leadership in identifying and addressing the needs of the government's human capital community.

[4]U.S. Government Accountability Office, *Human Capital: Increasing Agencies' Use of New Hiring Flexibilities*, GAO-04-959T (Washington, D.C.: July 13, 2004); *Human Capital: Additional Collaboration Between OPM and Agencies Is Key to Improved Federal Hiring*, GAO-04-797 (Washington, D.C.: June 7, 2004); and *Human Capital: Status of Efforts to Improve Federal Hiring*, GAO-04-796T (Washington, D.C.: June 7, 2004).

[5]U.S. General Accounting Office, *Human Capital: Observations on Agencies' Implementation of the Chief Human Capital Officers Act*, GAO-04-800T (Washington, D.C.: May 18, 2004).

We have reported that interagency councils, such as the Chief Financial Officers' and Chief Information Officers' councils, have emerged as important leadership strategies in both developing policies that are sensitive to implementation concerns and gaining consensus and consistent follow-through within the executive branch.[6] The CHCO Council can fulfill an equally important role. It has established subcommittees to address and recommend changes for key areas identified by the Council's leadership as critical to the success of strategic human capital management. The subcommittees are examining their areas and developing recommendations for review by the executive committee and, subsequently, the Council. We understand that three subcommittees—hiring process, leadership development and succession planning, and employee conduct and poor performers—have submitted their first reports for review by the executive committee. However, these reports had not been released as of July 13, 2004.

Efforts to Foster a Strategic Approach to Human Capital Management Are Under Way

A little over a year ago, in a joint hearing before your subcommittee and that of Chairwoman Davis, we testified that federal human capital strategies are not yet appropriately constituted to meet current and emerging challenges or to drive the needed transformation across the federal government.[7] The basic problem has been the long-standing lack of a consistent strategic approach to marshaling, managing, and maintaining the human capital needed to maximize government performance and assure its accountability. At your request and others in Congress, we have undertaken a large body of work since then on relevant human capital management efforts that are under way. Our summary of the major themes emerging from that work follow.

Conducting Strategic Workforce Planning

In the wake of extensive downsizing during the early 1990s, done largely without sufficient consideration of the strategic consequences, agencies are experiencing significant challenges to deploying the right skills, in the right places, at the right time. Agencies are also facing a growing number of employees who are eligible for retirement and are finding it difficult to

[6]U.S. General Accounting Office, *Government Management: Observations on OMB's Management Leadership Efforts*, GAO/T-GGD/AIMD-99-65 (Washington, D.C.: Feb. 4, 1999).

[7]U.S. General Accounting Office, *Human Capital: Building on the Current Momentum to Address High-Risk Issues*, GAO-03-637T (Washington, D.C.: Apr. 8, 2003).

fill certain mission-critical jobs, a situation that could significantly drain agencies' institutional knowledge.

Strategic workforce planning addresses two critical needs: (1) aligning an organization's human capital program with its current and emerging mission and programmatic goals and (2) developing long-term strategies for acquiring, developing, and retaining staff to achieve programmatic goals.[8] Existing strategic workforce planning tools and models and our own work suggest that there are certain principles that such a process should address irrespective of the specific agency context in which planning is done, as shown in figure 2.

Figure 2: Principles of the Strategic Workforce Planning Process

- Involve top management, employees, and other stakeholders in developing, communicating, and implementing the strategic workforce plan.
- Determine the critical skills and competencies that will be needed to achieve current and future programmatic results.
- Develop strategies that are tailored to address gaps in number, deployment, and alignment of human capital approaches for enabling and sustaining the contributions of all critical skills and competencies.
- Build the capability needed to address administrative, educational, and other requirements important to support workforce strategies.
- Monitor and evaluate the agency's progress toward its human capital goals and the contribution that human capital results have made toward achieving programmatic goals.

Source: GAO.

For example, the achievement of DOD's mission is dependent in large part on the skills and expertise of its civilian workforce. We recently reported that DOD's future strategic workforce plans may not result in workforces that possess the critical skills and competencies needed.[9] Among other things, DOD and the components do not know what competencies their staff need to do their work now and in the future and what type of recruitment, retention, and training and professional development

[8]U.S. General Accounting Office, *Human Capital: Key Principles for Effective Strategic Workforce Planning*, GAO-04-39 (Washington, D.C.: Dec. 11, 2003)

[9]U.S. General Accounting Office, *DOD Civilian Personnel: Comprehensive Strategic Workforce Plans Needed*, GAO-04-753 (Washington, D.C.: June 30, 2004).

workforce strategies should be developed and implemented to meet future organizational goals. It is questionable whether DOD's implementation of its new personnel reforms will result in the maximum effectiveness and value because DOD has not developed comprehensive strategic workforce plans that identify future civilian workforce needs.

Moving beyond a "replacement" approach, which focuses on identifying particular individuals as possible successors for specific top-ranking positions, succession planning and management are particularly important given the demographic realities and transformation challenges agencies face. Leading organizations engage in broad, integrated succession planning and management efforts that focus on strengthening both current and future organizational capacity. As part of this approach, these organizations identify, develop, and select successors who are the right people, with the rights skills, at the right time for leadership and other key positions. We identified specific succession planning and management practices that agencies in Australia, Canada, New Zealand, and the United Kingdom are implementing that reflect this broader focus on building organizational capacity (see fig. 3).[10]

Figure 3: Selected Practices Used by Agencies in Other Countries to Manage Succession

- Receive active support of top leadership.
- Link to strategic planning.
- Identify talent from multiple organizational levels, early in careers, or with critical skills.
- Emphasize developmental assignments in addition to formal training.
- Address specific human capital challenges, such as diversity, leadership capacity, and retention.
- Facilitate broader transformation efforts.

Source: GAO.

At your request and the request of Chairwoman Davis, we are now evaluating selected federal agencies' succession planning and management

[10]U.S. General Accounting Office, *Human Capital: Insights for U S Agencies from Other Countries' Succession Planning and Management Initiatives*, GAO-03-914 (Washington, D.C.: Sept. 15, 2003).

efforts. As part of that engagement, we plan to examine how they are implementing these key practices.

Strengthening Federal Employee Training and Development

As they continue to build their fundamental management capabilities, federal agencies will need to invest resources, including time and money, to ensure that their employees have the information, skills, and competencies they need to work effectively in a rapidly changing and complex environment. This includes investments in training and developing employees as part of an agency's overall effort to achieve cost-effective and timely results. To this end, we have developed a framework that federal agencies can use to ensure that their training and development investments are targeted strategically and are not wasted on efforts that are irrelevant, duplicative, or ineffective.[11] This framework consists of a set of principles and key questions that can help agencies assess their training and development efforts and make it easier to determine what, where, and how improvements may be implemented.

We also recently reviewed selected agencies' experiences and lessons in key aspects of designing training and development programs.[12] The officials emphasized that their agencies are transitioning to more formal and comprehensive planning approaches to assess skill and competency requirements and identify related training and development needs—primarily as part of broader efforts to incorporate workforce planning into ongoing strategic planning and budgeting processes focused on achieving results.

To develop strategies and solutions for training needs, the selected agencies considered a mixture of delivery mechanisms, as well as potential sources for training and development opportunities. However, projecting costs and benefits of proposed training and development programs presented challenges for them. The agencies usually developed broad information on anticipated benefits and expected costs of potential investments, although often without tying benefits to specific performance

[11]U.S. General Accounting Office, *Human Capital: A Guide for Assessing Strategic Training and Development Efforts in the Federal Government*, GAO-04-546G (Washington, D.C.: March 2004).

[12]U.S. General Accounting Office, *Human Capital: Selected Agencies' Experiences and Lessons Learned in Designing Training and Development Programs*, GAO-04-291 (Washington, D.C.: Jan. 30, 2004).

improvements or considering all costs. For example, one of the lessons learned was to establish mechanisms to avoid duplication or inconsistencies. Education Service Representatives in each regional Veterans Health Administration network, for example, coordinate training and development programs with headquarters—sharing information about successful practices and identifying areas where coordination is needed.

Implementing Pay for Performance

There is a growing understanding that the federal government needs to fundamentally rethink its current approach to pay and to better link pay to individual and organizational performance. As you are aware, GAO strongly supports the need to expand pay for performance in the federal government. Nevertheless, how it is done, when it is done, and the basis on which it is done, can make all the difference in whether such efforts are successful. High-performing organizations continuously review and revise their performance management systems to achieve results, accelerate change, and facilitate two-way communication throughout the year so that discussions about individual and organizational performance are integrated and ongoing.

Modernizing Senior Executive Performance Management

Senior executives need to lead the way to transform their agencies' cultures to be more results oriented, customer focused, and collaborative in nature. Performance management systems that are valid, reliable, and transparent with reasonable safeguards can help manage and direct this process. We previously reported that more progress is needed in explicitly linking senior executives' performance expectations to contributing to the achievement of results-oriented organizational goals, fostering the necessary collaboration both within and across organizational boundaries to achieve results, and demonstrating a commitment to lead and facilitate change.[13]

Recently, Congress and the administration have sought to modernize senior executive performance management systems by establishing a new performance-based pay system for the Senior Executive Service (SES) that is designed to provide a clear and direct linkage between SES performance

[13]U.S. General Accounting Office, *Results-Oriented Cultures: Using Balanced Expectations to Manage Senior Executive Performance*, GAO-02-966 (Washington, D.C.: Sept. 27, 2002).

and pay.[14] With the new system, an agency can raise the pay cap for its senior executives if OPM certifies and OMB concurs that the agency's performance management system, as designed and applied, makes meaningful distinctions based on relative performance. However, data suggest that more work is needed in making such distinctions. Agencies rated about 75 percent of senior executives at the highest levels their systems permitted, and approximately 49 percent of senior executives received bonuses in fiscal year 2002, the most current year for which data are available.

We recently assessed how well the Departments of Education and Health and Human Services (HHS) and NASA are creating linkages between senior executive performance and their organizations' success.[15] Overall, we concluded that Education, HHS, and NASA have undertaken important and valuable efforts, but these agencies need to continue to make substantial progress in using their senior executive performance management systems to strengthen the linkage between senior executive performance and organizational success.

For example, senior executives' perceptions at Education, HHS, and NASA indicate that these three agencies have opportunities to use their career senior executive performance management systems more strategically to strengthen that link. Specifically, based on our survey of career senior executives, we found that generally less than half of the senior executives at Education, HHS, and NASA believe that their agencies are fully using their performance management systems as a tool to manage the organization or to achieve organizational goals.

In addition, generally less than half of the senior executives at Education, HHS, and NASA felt that their agencies are fully using their performance management systems to achieve such systems' three key objectives. Effective performance management systems (1) strive to provide candid and constructive feedback to help individuals maximize their contribution and potential in understanding and realizing the goals and objectives of the organization, (2) seek to provide management with the objective and fact-

[14] See section 1322 of Public Law 107-296, November 25, 2002, and section 1125 of Public Law 108-136, November 24, 2003.

[15] U.S. General Accounting Office, *Human Capital: Senior Executive Performance Management Can Be Significantly Strengthened to Achieve Results*, GAO-04-614 (Washington, D.C.: May 26, 2004).

based information it needs to reward top performers, and (3) provide the necessary information and documentation to deal with poor performers.

Information on Education's, HHS's, and NASA's experiences and knowledge should provide valuable insights to other agencies as they seek to use senior executive performance management as a strategic tool to drive internal change and achieve external results. Overall, we recommended that the Secretaries of Education and HHS and the Administrator of NASA continue to build their career senior executive performance management systems along the key practices we previously identified for effective performance management.[16] NASA concurred with all the recommendations and plans to implement the recommendations in its next SES appraisal cycle. While HHS did not provide formal comments on the report, an HHS official told us that they intend to incorporate our recommendations into future revisions to its system in response to OPM's new SES pay system. Education described specific actions it plans to take to revise its SES system, which are generally consistent with our recommendations.

Implementing Pay for Performance at Personnel Demonstration Projects

Several federal agencies have experimented with new pay for performance systems through OPM's personnel demonstration projects. We reported on the approaches selected demonstration projects have taken in designing and implementing their pay for performance systems.[17] Overall, these demonstration projects show an understanding that linking pay to performance is very much a work in progress at the federal level. Their approaches follow.

- *Using competencies to evaluate employee performance.* We found that high-performing organizations use validated core competencies as a key part of evaluating individual contributions to organizational results. Several demonstration projects use core competencies for all positions across the organization to evaluate performance, while some demonstration projects use competencies based primarily on the individual position.

[16]For information on these key practices, see U.S. General Accounting Office, *Results-Oriented Cultures: Creating a Clear Linkage between Individual Performance and Organizational Success*, GAO-03-488 (Washington, D.C.: Mar. 14, 2003).

[17]U.S. General Accounting Office, *Human Capital: Implementing Pay for Performance at Selected Personnel Demonstration Projects*, GAO-04-83 (Washington, DC: Jan. 23, 2004).

- *Translating employee performance ratings into pay increases and awards.* We have also recognized that high-performing organizations traditionally seek to create pay, incentive, and reward systems that clearly link employee knowledge, skills, and contributions to organizational results. Some demonstration projects establish predetermined pay increases, awards, or both depending on a given performance rating, while others delegated the flexibility to individual pay pools to determine how ratings would translate into pay increases, awards, or both. The demonstration projects made some distinctions among employees' performance.

- *Considering current salary in making performance-based pay decisions.* Several of the demonstration projects consider an employee's current salary when making pay increase and award decisions. With this approach, there is an attempt to better match an employee's compensation and his or her contribution to the organization. Therefore, two employees with comparable contributions could receive different performance pay increases and awards depending on their current salaries.

- *Managing costs of the pay for performance system.* The major cost drivers of implementing pay for performance systems at demonstration projects were salaries, training, and automation and data systems, according to project officials. In making their pay decisions, some of the demonstration projects use funding sources such as the annual general pay increase and locality pay adjustment. For example, to manage salary costs, some of the demonstration projects consider fiscal conditions and the labor market when determining how much to budget for pay increases, manage movement through the pay band, and provide a mix of one-time awards and permanent pay increases.

- *Providing information to employees about the results of performance appraisal and pay decisions.* To ensure fairness and guard against abuse, performance-based pay systems should have adequate safeguards. One such safeguard is to ensure reasonable transparency and appropriate accountability mechanisms in connection with the results of the performance management process. Several of the demonstration projects accomplish this by publishing information for employees, such as the average performance rating, performance pay increase, and award.

We observed that additional work is needed to strengthen efforts to ensure that the demonstration projects' performance management systems are tools to help them manage on a day-to-day basis. In particular, there are opportunities to use organizationwide competencies to evaluate employee performance that reinforce behaviors and actions that support the organization's mission, translate employee performance so that managers can make meaningful distinctions between top and poor performers with objective and fact-based information, and provide information to employees about the results of the performance appraisals and pay decisions to ensure that reasonable transparency and appropriate accountability mechanisms are in place.

Creating Strategic Human Capital Offices

In creating the CHCO, Congress has underscored the critical role leadership must play in human capital management. If people are the federal government's most important asset to drive its performance and key to its transformation, they must have leadership and support. Agencies are increasingly recognizing how human capital activities contribute to achieving mission and goals as they integrate their human capital strategies with their organizational mission, visions, core values, goals, and objectives.

Selected agencies are seeking to shift the focus of their human capital offices from primarily compliance activities to consulting activities. They are taking several key actions to make this shift.[18]

- Agency leaders included human capital leaders in key agency strategic planning and decision making and, as a result, the agencies engaged the human capital organization as a strategic partner in achieving desired outcomes relating to the agency's mission.

- Human capital leaders took actions to transform the agencies' human capital organizations by establishing clear strategic visions, restructuring their organizations, and improving the use of technology to free organizational resources. These leaders also promoted a transition to a larger strategic role for human capital professionals with their focus being more on consulting rather than compliance activities.

[18]U.S. General Accounting Office, *Human Capital: Selected Agency Actions to Integrate Human Capital Approaches to Attain Mission Results*, GAO-03-446 (Washington, D.C.: Apr. 11, 2003).

The human capital profession is in transition from valuing narrowly focused specialists to requiring generalists, who have all the skills necessary to play an active role in helping to determine the overall strategic direction of the organization.

- Jointly, agency leaders and human capital leaders are having human capital professionals and agency line managers share the accountability for successfully integrating human capital considerations into agency strategic planning and decision making.

At the same time, human capital offices are understanding that they need to think broadly about how specific services are delivered. Human capital offices have traditionally used alternative service delivery (ASD)—the use of other than internal staff to provide a service or to deliver a product—as a way to reduce costs for transaction-based services. We reported that, according to agency officials, a primary driver for using ASD included taking advantage of the economies of scale that specialized providers can offer.[19] For instance, OPM's e-payroll initiative is designed to eventually collapse the operations of 22 executive branch payroll systems into 2 systems. By using consolidated ASD providers for their payroll services, federal agencies should realize cost savings from lower operational costs, eliminated duplicative systems investments, and simplified payroll processing.

Our report described how selected agencies were using ASD for the full range of their human capital activities, including advisory services and strategy and policy support activities as well as transaction-based services. Conceptually, agency officials agreed that human capital activities that did not require an intimate knowledge of the agency, oversight, or decision-making authority could be considered for ASD, although in practice they showed differences in their choices of ASD activities. Frequently cited reasons for using ASD were to free staff to focus on core activities where the human capital office can add strategic value and to respond to reductions in human capital staffing. In addition, using ASD for sporadic activities allows agencies to contract for the services only when needed. For example, the U.S. Fish and Wildlife Service used ASD for its classification appeals and studies, equal employment opportunity and

[19]U.S. General Accounting Office, *Human Capital: Selected Agencies' Use of Alternative Service Delivery Options for Human Capital Activities*, GAO-04-679 (Washington, D.C.: June 25, 2004).

administrative investigations, and mediations. Also, agency officials noted that gaining access to expertise and being able to respond quickly to changing environments were primary reasons for using ASD for human capital policy formulation and support activities, such as workforce planning and organizational assessment. A private sector contractor, for example, helped the U.S. Department of Agriculture develop the design for a corporate leadership development program to prepare upper-level managers for future leadership roles. One of the rationales for relying on a contractor was that the contractor had the research edge on best practices gleaned from completing needs assessments with other organizations.

We recommended that OPM provide comprehensive information about how agencies can use ASD for their human capital activities and that the CHCO Council could be an excellent vehicle to assist in this area. Given its potential benefits, it appears that the use of ASD will increase among federal agencies. By sharing experiences and lessons learned, agencies may be better prepared to use ASD to help them meet their human capital challenges.

Next Steps in Federal Human Capital Reform

The broad human capital authorities that Congress provided to DHS when it created the agency and to DOD were clearly important to helping these agencies meet current needs and prepare for the future. Nonetheless, these and related recent actions have significant, precedent-setting implications for the rest of government. We are fast approaching the point where "standard governmentwide" human capital policies and processes are neither standard nor governmentwide. We believe that human capital reform should avoid further fragmentation within the civil service, ensure reasonable consistency within the overall civilian workforce, and help maintain a reasonably level playing field among federal agencies in competing for talent. Moving forward, GAO believes it would be both prudent and preferable to employ a governmentwide approach to address the need for human capital authorities that have broad-based application and serious implications for the civil service system. Employing this approach is not intended to delay any individual agency's efforts, but rather to accelerate needed human capital reform throughout the federal government in a manner that ensures reasonable consistency within the overall civilian workforce. In short, the important changes under way at individual agencies naturally are suggesting that broader, more systematic civil service reform should be seriously considered.

To help advance the discussion concerning how human capital reform should proceed, GAO and the National Commission on the Public Service Implementation Initiative cohosted a forum to discuss whether there should be a framework for human capital reform, and if yes, what principles, criteria, and processes should be included in that framework. We will issue a summary of that forum in the coming weeks. However, the discussion was centered on three areas: 1) principles that the government should retain in a framework for reform because of their inherent, enduring qualities; 2) criteria that agencies should have in place as they plan and manage their new human capital authorities; and 3) processes that agencies should follow as they implement new human capital flexibilities.

In addition, the Chairman of the Committee on Governmental Affairs has asked us to help craft a statutory framework of human capital authorities and flexibilities that would help Congress as it considers agency-specific requests for human capital reforms. We look forward to continuing to assist Congress as it considers these important and difficult questions.

GAO's Human Capital Reform Act of 2004 Is Intended to Help Ensure a High-performing Workforce

GAO exists to support 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. We deeply appreciate the support and assistance we have received from this subcommittee and others in Congress in providing us with the tools and authorities we need to support Congress.

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 recently enacted Human Capital Reform Act of 2004 (Human Capital II), which, as you know, was recently signed by the President, 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.[20] These initiatives should also have the benefit of helping guide other agencies in their human capital transformation efforts.

[20]For more information, see Public Law 108-271, July 7, 2004, and U.S. General Accounting Office, *GAO: Additional Human Capital Flexibilities Are Needed*, GAO-03-1024T (Washington, D.C.: July 16, 2003).

Specifically, Human Capital II allows for the following additional human capital tools and flexibilities:

- make permanent GAO's 3-year authority to offer voluntary early retirement and voluntary separation incentive payments;
- allow the Comptroller General to adjust the rates of basic pay of GAO on a separate basis from 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 for the 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 key officers and employees 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 to further the institutional interest of the GAO or Congress, including for the purpose of providing training; and
- change GAO's legal name from the "General Accounting Office" to the "Government Accountability Office."

The Comptroller General and other GAO Executive Committee members engaged in a broad range of outreach and consultation activities with GAO staff on the Human Capital II legislation as it was being developed.[21] For example, the Comptroller General held two televised chats to inform GAO staff about the proposal. He also discussed the proposal with all staff including managing directors and the Employee Advisory Council on

[21]See, for example, U.S. General Accounting Office, *GAO's Proposed Human Capital Legislation: View of the Employee Advisory Council*, GAO-03-1020T (Washington, D.C.: July 16, 2003).

multiple occasions. He held a number of listening sessions with staff and incorporated feedback from these sessions into the proposal for Human Capital II. A link from the GAO internal home page was established that allowed employees to review a series of questions and answers, explanatory charts, and statements to Congress regarding the legislation.

We have already begun to implement some of the flexibilities we received. For example, we posted and requested employee comments on the order that establishes the interim regulations on GAO's voluntary early retirement authority that are in effect immediately. 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.

In addition, our name has changed to the "Government Accountability Office." At the same time, the well-known acronym "GAO" will be maintained. Although currently less than 15 percent of agency resources are devoted to traditional financial auditing and accounting activities, members of the public, the press, as well as Congress in the past incorrectly assumed that GAO was solely a financial auditing organization. In addition, the former name confused many potential job applicants, who assumed that GAO was 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.

GAO is studying the implementation of the pay adjustment provision that would allow GAO to determine the amount of the current annual across-the-board pay adjustments that take into account differences in locality. GAO will, absent extraordinary economic conditions or serious budgetary constraints, provide all GAO staff whose performance is at a satisfactory level both across-the-board and, as appropriate, performance-based annual pay adjustments. GAO will also be able to develop and apply its own methodology for annual across-the-board pay adjustments that take into account differences in locality, which would be more representative of the nature, skills, and composition of GAO's workforce and will incorporate consideration of market-based salary data. GAO has recently let a contract to help inform our decision making on compensation. As in the past, GAO will continue to solicit input from employees and incorporate their views as appropriate as part of this process.

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 GAO Human Capital Reform Act is well reasoned 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 will benefit from GAO's experience with pay for performance systems.

Chairman Voinovich and Members of the subcommittee, this concludes my prepared statement. I would be pleased to answer any questions you may have.

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Statement of

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Assistant Secretary for Administration and Management
and
Chief Human Capital Officer

Before the

Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia
Committee on Governmental Affairs
United States Senate
July 20, 2004

Good Morning Chairman Voinovich and members of the Subcommittee. On behalf of Secretary Tommy Thompson, I appreciate the opportunity to appear before you today to discuss the initiatives that the Department of Health and Human Services' (HHS) has undertaken to address the challenges facing our workforce and how the Department has incorporated new workforce flexibilities into our human capital strategy.

I want to thank Chairman Voinovich for his leadership and foresight in authoring legislation that provides flexibility and efficiencies in the human capital arena. As we know, creating a more effective government depends on attracting, developing, and retaining quality employees from diverse backgrounds and ensuring that they perform at high levels. Sound investment in human capital is essential if agencies are to achieve their missions. HHS has taken up the challenge presented by the President's Management Agenda (PMA) and made significant progress.

The over-arching central direction of Secretary Thompson is that the Department of Health and Human Services must function as a single entity – as *One HHS*. To ensure that HHS is *One Department* rather than a collection of disparate and unrelated agencies, we have taken a number of steps, and are planning more. For example, we have consolidated support activities to increase efficiency of administrative services to the entire Department and have begun to implement more effective coordination of

HHS research and demonstration activities. We are increasingly collaborating and coordinating significant activities among HHS agencies, such as work on delivery of health care services to children and families, and privacy and confidentiality policies. The HHS Strategic Plan contains Management Improvement Goals including reducing the number of personnel offices; modernizing and improving human, financial, and technological management, including the information technology governance process; and reforming regulations to reduce excessive paperwork and burden on doctors, nurses, and other health care professionals. To provide accountability as well as feedback and tracking of how we are doing, we have instituted performance contracts (tied to the strategic goals and objectives) for the Department's senior leadership, which have cascaded to a significant portion of the Department. These performance contracts instituted explicit standards against which HHS officials' work is measured.

In terms of our structure, HHS is one of the largest federal departments, the Nation's largest health payer, and the largest grant-making agency in the United States federal government. The Department promotes and protects the health and well-being of all Americans and provides world leadership in biomedical and public health sciences. As indicated above, in doing this, HHS is committed to becoming a unified Department. We have developed "One HHS" outcome goals, accompanied by specific objectives and milestones designed to measure our progress in achieving these goals.

HHS' Strategic Plan for Human Capital

The foundation of HHS and the key to its future success is its workforce -- without whom the important mission-related work of the Department could not be accomplished. The Department's ability to accomplish its mission is directly dependent on a workforce that capitalizes on its strengths and aligns itself with the agency's mission and strategic goals. In a world of turbulent change, success depends on the workforce's ability to reach, learn and adapt at rapid speed. The overall challenge for HHS is to develop and utilize its human capital in a strategic manner. The Department continues to build a fully integrated human capital management approach that bridges the gap between where HHS is today and where HHS needs to be tomorrow. Specifically, we have implemented Department-wide recruitment and retention strategies; a strategic workforce plan to respond to and eliminate potential skill imbalances; consolidated administrative functions to eliminate

duplication and increase efficiency and effectiveness; delayered organizations to no more than four management layers to speed decision-making; and deployed staff to mission-related functions to improve HHS as a citizen-centered Department.

Accomplishing these objectives ensures that HHS is a well-managed organization that leverages its human capital, systematically measures its performance, remains focused on mission, and anticipates and responds to future requirements.

Human Capital Strategies are linked to agency mission and goals

HHS has emphasized the need to optimize the use of human capital and resources for mission accomplishment since FY 2002. Budget instructions to departmental leadership make consolidating administrative functions, delayering organizations, and reducing overhead key elements of budget decision-making. The budget formulation process includes functional reviews to assure that human capital and other President's Management Agenda (PMA) initiatives are an integral part of each OPDIV's budget. Human capital and PMA initiatives link to the budget process and are reinforced by the Assistant Secretary for Administration and Management sitting on the Secretary's Budget Council. The Human Capital plan documents the linkages between the Department's workforce analysis, restructuring plan, recruitment and retention plan, strategic plan, GPRA goals, and accountability plan. The Human Capital Plan also provides a common timetable for plan assessment and updates and assures that accountability for results across the Department is maintained. This coordination assures the alignment of human capital to HHS mission accomplishment.

Organization is restructured to provide optimal service at lowest cost and respond to changing business needs

HHS has completed administrative consolidations in all of its Operating Divisions, reducing the number of offices providing the same services. At the same time, Operating Divisions have completed their de-layering efforts, so that no organization has more than four management levels Department-wide. Competitive sourcing activities are coordinated with consolidation and restructuring, and transition tools (for example early retirement and buyouts) have been used to facilitate organizational transitions. E-

government initiatives such as e-grants and e-payroll have allowed HHS to achieve administrative economies and re-direct resources to mission accomplishment. The Department's April 2003 initiative to redirect resources toward mission accomplishment has resulted in the percentage of mission critical positions increasing from 56 percent to 61 percent of the workforce.

Continuity of leadership and knowledge is assured through succession planning and professional development

Leadership recruitment and development programs are an institutionalized part of HHS's human capital strategy. The Emerging Leaders Program is established as an ongoing success, graduating its first class and hiring its third in July 2004. The Department's SES Candidate Development Program provides an ongoing pool of future SES members to succeed over 100 executives across HHS. Workforce analyses feed succession planning programs for ongoing leadership and executive development. Common needs training across HHS is consolidated in the HHS University, linking training, career development, workforce planning and succession planning to hiring and developing future leaders. The HHS University achieves economies of scale by providing a central focus for common needs training while coordinating centers of excellence for programmatic and scientific training across the Department.

Performance appraisals for SES and managers link to agency mission and are cascaded appropriately throughout the agency

HHS is in its fourth iteration of performance contracts for political, operating and staff division heads, having begun the initiative in FY 2001. Performance plans that flow from contracts with senior managers are linked to the Secretary's priorities and strategic goals for HHS and cascade to SES, GS managers and all appropriate employees - covering 95% of the HHS workforce.

Workforce Diversity

HHS has a diverse workforce at all levels, including critical occupations and its leadership. Workforce diversity is an element in the planning of leadership recruitment and development programs such as Emerging Leaders and SES Candidate Development Program. These efforts will help

HHS to maintain diversity in its future leadership. Ongoing workforce analysis and program assessment is carried out to measure the effectiveness of efforts to address workforce diversity. Evaluation activities include analysis of reports required for the Department's affirmative action plans for women and minorities, persons with disabilities, and the Disabled Veterans Affirmative Action Plan. In addition, evaluation efforts in the area of diversity are coordinated with strategic recruiting efforts to gauge the effectiveness of recruitment efforts and determine the best sources of qualified applicants from targeted groups.

Potential Skill gaps in mission critical occupations are identified and reduced

Workforce analysis is carried out as an ongoing part of strategic workforce planning. Findings are linked to recruitment, retention, redeployment, career development and succession planning programs. The Department's effort to shift resources from administrative to mission has resulted in a better alignment of support positions to mission critical occupations. Changes in skills sets are assessed on the basis of driving forces, particularly changes in program and mission, business process re-engineering and the impact of technology. Competitive sourcing and e-government initiatives feed into skills assessment and skills changes through all three of these driving forces.

Human Capital Program is guided by measurable outcomes

Human capital metrics are in place to gauge overall effectiveness of the Department's human capital management. Measurable outcomes show that HHS has strong and effective human capital programs oriented to helping the Department carry out its mission. Human resources service metrics enabled us to establish baselines for evaluating human resources services following consolidation to four service centers. HHS's human capital accountability plan provides cross-cutting measures of human capital effectiveness, including baseline data for assessing human resources services; links to mission accomplishment through performance contracts; and baselines and direction for shifting resources from overhead functions to mission accomplishment.

WORKFORCE FLEXIBILITIES

HHS is using *Direct Hire Authority,* as provided by the Chief Human Capital Officers Act. This authority permits agencies to evaluate the credentials of qualified candidates and hire them without putting them through the formal rating and ranking process used to fill most federal jobs. The authority is limited to occupations for which there is a critical shortage of candidates or a critical hiring need for the agency. OPM has approved the use of direct hire authority, government wide, for medical officers, nurses, pharmacists, diagnostic technicians, and Information Technology (IT) security specialists.

In June 2004 HHS published Department-wide vacancy announcements for medical officer, nurse and pharmacist positions and those announcements will remain open throughout the summer 2004. Right now we are participating in career fairs, conferences and other recruiting events in an effort to fill jobs. Agency managers are traveling to these activities to interview applicants and offer jobs on the spot; subject matter recruiters are attending medical association meetings and conferences to seek applicants; and the HR community is fully engaged in supporting these activities. While it is too soon to know the outcome of this effort, we do expect to fill positions, especially nurses, which is one of our critical occupations.

HHS also requested approval of *direct hire authority* to fill positions at the Centers for Medicare and Medicaid Services (CMS) as they implement the Medicare Prescription Drug, Improvement and Modernization Act (MMA). OPM approved the request in May 2004. We now have authority to fill health insurance specialist, economist and actuary positions, through grade 15. This authority is in effect through 2005 and we are actively filling those vacancies.

Traditionally, applicants for Federal jobs are rated and ranked against pre-established criteria and then assigned a numerical score. The 3 candidates with the highest scores are then considered for selection based on the "rule of three." *Category rating*, which provides authority to refer more than three candidates for selection, has not been implemented within HHS at this point. We have partnered with representatives from the Treasury Department, Department of Labor, Department of Homeland Security,

General Services Administration, Environmental Protection Agency and OPM to develop an automated category- rating module that can be used with our automated system, *HHS Careers/QUICKHIRE.* It will likely take six months or more to develop the module. We will use this flexibility within HHS following development of the automated process.

Another significant flexibility that HHS recently obtained from OPM permits us to quickly hire employees in the event of *public health emergencies.* Should there be an event involving the outbreak of infectious diseases, bioterrorist attacks, etc., HHS is now prepared to hire experienced new and former employees to manage the crises.

Finally, HHS has made good use of *voluntary separation incentives (buyouts) and voluntary early retirement authority* as important tools in correcting current and anticipated skills imbalances in the workforce. Within the context of the "One HHS" initiative, our objective has been to reshape the HHS workforce to fill skill gaps and phase out redundant non-mission-critical positions. OPM has given us the authority to use "buyouts" to help achieve administrative consolidations and successful competitive sourcing outcomes. Buyouts have been very effective in upholding the Secretary Thompson's pledge that no HHS employee will lose a job as a result of these initiatives.

The authority to offer voluntary early retirement and separation incentives has been essential to our ability to manage the workforce transition that accompanies this effort. For example, Voluntary Separation Incentives were a critical element in our program of workforce restructuring as we completed the Department's consolidation from 40 human resources offices to four. To date, HHS has eliminated several hundred administrative positions through consolidation and organizational de-layering. This would not have been possible without our buyout program, which was directly responsible for decreasing our staff across all occupations by over 700 persons agency-wide in the last year.

HHS has been using the *Student Loan Repayment Program* since fiscal year 2002 primarily as a retention tool. Managers will continue to use this authority, as appropriate, to recruit and/or retain high quality employees throughout the Department.

In Conclusion

The Department of Health and Human Services' workforce includes 65,000 employees who are spread around the United States and abroad. We employ physicians, nurses, and other health professionals as researchers, clinicians and administrators; statisticians and actuaries; specialists in financial management, grants management, and information systems; legal and regulatory experts; and experts in public health, social sciences and many other fields. We appreciate the flexibilities that Congress has provided as they have enabled the Department to improve our effectiveness in managing human capital initiatives across this broad spectrum of occupations and our far reaching mission. Nothing is more important than ensuring we have the right talent in the right place at the right time to meet the needs of all Americans.

Statement of
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for Human Resources and Administration and
Chief Human Capital Officer (CHCO)
U.S. Department of Justice
"Building the 21st Century Federal Workforce: Assessing Progress in Human Capital Management"
July 20, 2004

Good Morning Chairman Voinovich and embers of the Subcommittee. Thank you for the opportunity to testify today as you examine the impact recently enacted human capital flexibilities have had on agencies' ability to address their Human Capital Management challenges. Human Capital Management in the Department of Justice. We appreciate your interest in these critical issues and look forward to continue working with you to address the Department of Justice's workforce challenges.

The Department of Justice

The Department of Justice employs a workforce of approximately 120,000, this includes close to 50,000 law enforcement employees, and 10,000 attorneys, which is our next most populated occupational category. There are more than 280 occupational categories in the Department.

Overall, our workforce is younger than the Federal average, is higher-graded, and has attained a higher level of education. In addition, the Department tends to experience less attrition than other Federal agencies, approximately 5% overall, contributing to greater stability. The Department traditionally has enjoyed very strong training and developmental programs for ensuring a highly skilled workforce, particularly in the Federal Bureau of Investigations (FBI); the Federal Bureau of Prisons (BOP), Alcohol, Tobacco, Firearms and Explosives (ATF); Drug Enforcement Administration (DEA), and the Executive Office of U.S. Attorneys (EOUSA) at the National Advocacy Center.

Human Capital Accomplishments

Over the past three years, under the auspices of the President's Management Agenda, the Department has focused substantially on upgrading its ability to manage its workforce. A major part of our improvement efforts has been a successful partnership with our components to achieve an integrated vision and set of human capital policies and programs for the Department. In terms of "organizational culture," the changes have been a dramatic departure from the past, and our partnership with our components has resulted in developing policies and programs that meet both component and Departmental workforce planning and management needs.

In September 2002, the Department issued a comprehensive Human Capital Strategic Plan and, to date, have accomplished the majority of our planned initiatives. Specific achievements have included:

Creation and deployment of a workforce analysis and planning model which will be applied on a regular basis. The information generated by this model is at the component level, enabling the creation of specific hiring plans based on projected attrition.

Creation and deployment of a department-wide, occupationally-based competency analysis. The information generated by this model is enabling us to assess skill gaps by occupation and by component. This information is being utilized to design Justice Virtual University, in partnership with OPM and our components. The competency gap information will assist us also to focus our limited resources on the most critical, pervasive skill gaps.

Design and deployment of a department-wide performance management system. In the past 18 months, we have worked with our components to develop a new performance management model that ensures the "cascading" of organizational goals into individual employee plans, moves us away from the "pass/fail" approach in order to document distinctions in performance, and provides greater consistency in terminology, leading to an improved understanding of how performance is managed within our Department.

Renewed our emphasis on recruitment and hiring. During the past 18 months, we have formed a component working group to leverage limited resources, conducted and disseminated a "best practices" study of recruitment efforts in our components, selectively taken out ads in appropriate publications to promote careers in the Justice Department, fostered the transition to automated hiring processes in our components, and attended more than 50 job fairs and outreach events sponsored by OPM. The Justice Department enjoys significant "name recognition" in the attorney and law enforcement communities and we have no shortage of applicants for our vacancies.

Focused on succession planning, with an emphasis on implementing the first Department-wide SES Candidate Development Program since the 1980s. In 2003, the Department participated in a major research study sponsored by a private organization. The study showed that Justice executives, by and large, believe that the upcoming cadre of potential executives are well positioned for assuming executive responsibilities. A primary area of concern, however, continues to be "business acumen." As we conclude the selection phase of our SES Candidate Development Program in the coming few weeks and move into training these potential leaders, this area will receive particular emphasis.

Each of these, and other human capital initiatives, have been specifically undertaken to address the challenges we face in managing our workforce effectively and efficiently.

Human Capital Flexibilities

In concert with our Department-wide human capital efforts, we have also made full use of the flexibilities afforded us by the Congress. For example, I assumed responsibility as the Department's Chief Human Capital Officer (CHCO) in May 2003. Many, if not all, of our human capital efforts are consistent with the functions outlined in the law that created CHCOs. We are one of only six agencies that sought and received approval for direct hire authority for a "critical need" in our Criminal Division. This year, eight Justice components requested and were approved for Voluntary Early Retirement Authority (VERA). Furthermore, three of these components requested and received Voluntary Separation Incentive Payments (VSIP) authority. This flexibility has enabled the Department to address funding shortfalls, realign the workforce to reduce skill gaps, and restructure organizations to meet changing mission needs and priorities. The Student Volunteer Transit Subsidy was deployed and is a great resource for interns who work with the Department for short periods of time.

We are looking forward to the publication of the regulations which will enable us, in limited cases, to increase the compensation of our highest performing executives. Recently, we convened an inter-departmental working group to make recommendations to the Attorney General on significant revisions to the Department's SES performance and compensation policies. Once these regulations are available, we intend to implement these flexibilities with the appropriate and stringent safeguards.

The Department has made limited use of the Academic Training provision, primarily in the Executive Office of U.S. Attorneys. EOUSA established an intern program that provides the payment of academic training while the employees provide agency support. This program was successfully piloted, and these flexibilities are providing the much needed information technology skills for the agency.

Challenges for the Present and the Future

Although the Department is making solid progress, there are several challenges which could potentially impede our ability to effectively manage our workforce. Some of the challenges we face include:

Inconsistent pay, benefits, and rules for law enforcement personnel. As a general rule, I think we can all agree that a consistent policy approach should be taken to manage law enforcement pay and benefits, as well as other work-related aspects, across the Federal government. Cross-cutting missions and activities, particularly in this post 9/11 environment, increases the opportunities for law enforcement agencies to become aware of disparities in pay and benefits afforded to one segment of the Federal law enforcement community, but not to all. I note that just last Friday, July 16, 2004, the Office of Personnel Management released its report to Congress addressing

law enforcement personnel classification, pay, and benefits, pursuant to the Federal Law Enforcement Pay and Benefits Parity Act of 2003" (Pub. L. No. 108-196), under which OPM was required to compare pay and benefits among law enforcement personnel throughout the Federal government and to make recommendations to correct any unwarranted differences. We look forward to working with OPM and the Congress as the recommendations in OPM's report are considered.

Funding for Human Capital flexibilities

Many of the flexibilities now available, including VSIP, student loan repayment, recruitment and relocation bonuses, and retention allowances, are costly to implement. In our experience, managers tend to shy away from these flexibilities for two primary reasons: lack of available funds and perceptions of employees who do not receive these benefits, including possible challenges of disparate treatment. In the past year, we have launched a very successful student loan repayment program for our attorneys which involves a process for fairly assessing and deciding potential recipients. The program has positively affected our ability to recruit and retain the best attorneys. The process we devised and implemented was key to ensuring the Department used the flexibility fairly to reward its best talent.

Oversight of flexibilities granted. I am delighted to participate in this hearing, and appreciate the opportunity to provide information on the Department's accomplishments. Spotlighting these efforts will enable them to flourish. In addition, agencies' ability to implement many of these flexibilities is dependent on OPM's provision of regulation and guidance. On the whole, we have been quite satisfied with OPM support of our human capital endeavors. Continued focus on ensuring that the appropriate Government-wide infrastructure is in place for agencies to use these flexibilities fruitfully is most helpful.

Conclusion

As you know, our employees do a superb job maintaining the security of our citizens and enforcing the rule of law. We are confident that you agree that they deserve the best support we can give them, as they perform their jobs on our behalf. Above all, providing us the ability to ensure fair and equitable treatment in pay and benefits for all professionals in the Department is essential to maintaining a stable, satisfied and high performing workforce. We are pleased with our progress in improving how we manage our current workforce, and are optimistic regarding efforts to ensure a future workforce capable of meeting challenges that lie ahead for the Department, and for our nation. Thank you again for the opportunity to speak today, and we look forward to working with you.

I would be pleased to answer any questions that you may have at this time.

Statement of

Vicki A. Novak
Assistant Administrator for Human Resources and Chief Human Capital Officer

Before the

Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia
Committee on Governmental Affairs
United States Senate
July 20, 2004

I am pleased to appear before the Subcommittee today to discuss the programs and initiatives NASA has undertaken to address the Agency's human capital challenges and what the Agency has done to incorporate new workforce flexibilities into our human capital strategy. The Administration has made strategic management of human capital a top priority. As Administrator Sean O'Keefe has said many times, human capital is the linchpin of the President's Management Agenda and – ultimately mission success. Everyone at NASA understands that and we have been diligent in our efforts to craft human capital strategies that will ensure we have the talent we need now and in the future. We are also grateful for the work of this Subcommittee and others in Congress who have clearly recognized the Federal Government's workforce challenges and who have devoted so much of their time and energy to developing effective solutions.

NASA's HUMAN CAPITAL CHALLENGES

After years of downsizing in the 1990s, the Agency faced skills imbalances in many areas, as well as the possible loss of experience and corporate knowledge, particularly in the scientific and technical workforce, due to projected retirements. Fewer qualified science and technology workers in the education pipeline and greater competition in the job market for such workers further contributed to NASA's workforce challenges. To address skills imbalances and potential competency gaps, we needed to use our current workforce more effectively and plan wisely for the future. This included finding a way to identify, on an Agency-wide basis, near- and long-term competency needs, a way to accurately identify our current workforce's abilities and target them to where they are most needed, and a strategy for attracting, hiring, developing and retaining workers with key competencies. We needed to establish a more corporate approach to leadership development and succession planning to ensure a cadre of effective leaders for the future. We also needed to ensure that training programs were aligned with the Agency's mission and goals and would build the competencies needed to enhance performance and support mission success.

HOW NASA HAS ADDRESSED THESE CHALLENGES

While I have been designated NASA's Chief Human Capital Officer, responsibility and accountability for effectively managing NASA's human capital resource is shared

throughout all levels of the Agency. We produced a Strategic Human Capital Plan (SHCP) and an accompanying Strategic Human Capital Implementation Plan (SHCIP) – creating an integrated, systematic approach to ensuring the Agency continues to have the high-performing workforce it needs. The SHCP is a flexible, long-term plan, capable of accommodating changes in program direction. It identifies human capital goals, strategies and improvement initiatives. The Implementation Plan, updated periodically, provides action plans for achieving the Agency's human capital goals. NASA's SHCP was developed by a team of Agency senior leaders – people ultimately responsible for delivering programs and achieving results. It is not the human resources community's plan. It is the Agency's plan and we are all responsible for it. That, I think, is a reflection of the importance NASA places on human capital.

Ensuring that NASA has state-of-the-art competence 10 years from now in emerging and cutting-edge areas is a challenge. To help meet this challenge, NASA has developed effective workforce planning tools and made them available via the web to managers and analysts Agency-wide. For each organizational, occupational, and demographic segment of the workforce, data is provided on hiring, attrition, and on-board strength going back 5 years. Planners have attrition forecasts for the coming 5 years for all job and employee types.

A critical element of NASA's enhanced workforce planning and analysis tools is NASA's competency management system (CMS). Developed as an initiative under the SHCP, it provides NASA our first-ever Agency-wide inventory of workforce competencies needed to accomplish the NASA mission, using a consistent terminology Agency-wide. The competency management system helps NASA better identify, manage, and report its competency strengths and needs. Competency information derived from enhanced workforce data analysis feeds into NASA's human capital programs, enabling the Agency to target recruitment, retention, training, and workforce development and succession planning in a more focused, integrated way.

We have enhanced our recruitment efforts. In addition to individual Center recruitment activities, we have established an active corporate recruitment effort targeting "at risk" competencies identified using the competency management system. In the fall of 2003 and Spring 2004, NASA senior leaders and hiring managers participated in 18 recruitment events, including on-campus visits, and extended offers of employment to students, which are pending final completion of the hiring process. To date, 73 percent of those who were offered positions have accepted them.

We have improved our hiring mechanisms as well. NASA STARS, our automated recruitment system, gives candidates the convenience of applying online. It has reduced the time needed to fill vacancies by over 35 percent and yields over four times more applicants per position, on average, than the previous manual process. It saves 40,000 work hours annually, and applicants have expressed extremely high satisfaction with the ease of the application process.

The Agency's interrelated performance management and awards and recognition programs link the Agency's human capital programs to, and support, mission accomplishment. Explicit selection and performance criteria hold members of NASA's Senior Executive Service (SES) directly accountable for performance results and for effective management of human capital. The Agency selects, promotes, appraises, and rewards senior executives based on these criteria. These requirements further cascade down to non-SES supervisors and have been tailored and cascaded down to the rest of the workforce, thus ensuring that performance expectations for executives, supervisors, and employees are consistent, clearly communicated, and results-oriented. Award and recognition recommendations and decisions tie to actual organizational goals and/or mission, identifying the level of contribution toward the related results or outcomes as a means for determining any monetary benefit. We are currently in the process of developing an enhanced, multi-level performance management system. Participants in workshops held on this subject represented all Centers and included line managers, union officials, attorneys, and human resources and equal employment opportunity specialists. We are also implementing changes to enhance our awards and recognition programs, including incorporating criteria for recognizing One-NASA contributions and collecting and sharing lessons learned.

NASA practices the continual identification of high-potential candidates through the analysis of workforce demographics and critical competencies and further ensures systematic identification of the Agency's future leaders through the involvement and input from Agency and Center senior leaders on the priorities and needs of the Agency. NASA's approach is to attract and develop potential leaders who possess the competencies needed to meet future needs, who are aligned with our vision and mission, and who are focused on achieving results that matter to the American people. In addition to bringing in talent from the private sector into mid- and high-level positions, when needed, current employees are strongly encouraged to develop leadership competencies and skills, with the support of their supervisors, from their initial entry into the NASA workforce and throughout their careers.

Our leadership development strategy has been implemented around the SES performance criteria and NASA's Leadership Model. We have refined our Leadership Model to ensure that our leadership and management development is aligned to the Agency Strategic Plan. The model guides the development for various types of leadership roles, laying out performance dimensions and a set of competencies for each. It also identifies training and development opportunities appropriate for achieving each competency and plays a pivotal role in our enhanced succession planning, serving as an umbrella under which existing development programs are refined and new development programs created. This approach integrates efforts to define leadership competencies and, as a result, is a valuable tool in creating a One NASA approach to leadership development across the Agency. The Agency's senior leaders help design and conduct leadership development activities, through programs such as the SES Leadership Series Program, the SES Candidate Development Program, the Leadership Development Program, and the Fellowship Program. NASA has also strengthened Agency leadership development

through enhanced coaching and mentoring activities and an increased emphasis on mobility to achieve career-broadening experience.

NEW WORKFORCE FLEXIBILITIES

We have sought and obtained additional workforce flexibilities to help us recruit and retain the talent we need and are also making use of Government-wide flexibilities Congress has provided. The flexibilities in the Homeland Security Act will be very useful to NASA in addressing its human capital challenges.

The Act contains two significant provisions that have been beneficial in the past year in reshaping our workforce to meet mission needs: the revision and expansion of the *buyout authority and the voluntary early retirement authority*. Under these provisions, NASA has implemented buyout/early out plans affecting four Centers. We anticipate continued use of these tools to rebalance the workforce to align with program needs and shifting priorities.

The Homeland Security Act authorizes agencies to pay for *academic degree training* when the training contributes to an agency need and is part of an agency employee development program linked to accomplishing the strategic goals of the agency. As an agency that places great emphasis on strong training and development programs to enhance employee capabilities and competencies to improve organizational performance, NASA will make effective use of this provision. We have incorporated this authority in our Agency policies and implementing procedures.

NASA also is looking forward to using an important hiring flexibility provided in the Act – the *category rating system*. We have long-supported this provision as a means of expediting the hiring process while ensuring that the process remains open and fair. We have worked with our Centers to develop our implementing policies and procedures for using category rating in evaluating job applicants. Since our evaluation process (NASA STARS) is automated, we are now engaged in reprogramming this system to accommodate the category rating approach. Once the reprogramming is completed and tested, we will be ready to use this new authority.

NASA has been using the *Student Loan Repayment Program* since fiscal year 2002 as another recruitment and retention tool. Managers will continue to use this authority, as appropriate, to attract high quality graduates who might otherwise be inclined to accept more lucrative offers due to student loan debts.

Of course, in February of this year the NASA Flexibility Act of 2004 was enacted, providing the Agency with additional tools to help us address the specific workforce challenges we are facing. We are very grateful to the work of this Subcommittee in supporting this legislation. The law required that NASA submit a workforce plan, approved by the Office of Personnel Management, to Congress 90 day prior to exercising any of these new authorities. The 90-day waiting period ended less than two weeks ago – on July 8 – so we are in the very early stages of using the new authorities in connection with recruitment and retention initiatives.

Nevertheless, our Centers were prepared to take action as soon as the flexibilities became available. Already, several Centers have issued vacancy announcements to fill positions under the new, flexible term appointment authority. Last week, two Centers offered the enhanced annual leave benefit to two prospective new hires as an incentive to accept a position. Once Center offered the enhanced travel benefits to a candidate, who now has accepted the job offer and will be reporting in several weeks. A Center in a high-cost area has offered the enhanced travel and relocation benefit to attract two individuals with exceptional expertise to fill positions that have remained vacant for an extended period.

Another Center, focused on rebalancing the workforce, is using a combination of flexibilities to ensure that they have the right competencies in place. The buyout authority is being used to address skill surpluses in some areas, while skill shortages in other areas will be addressed with a staffing strategy that involves both recruiting under the new term appointment authority and using the qualifications pay authority.

Also, very soon our fall recruiting events will be underway, and we anticipate using the new authorities to make us a competitive employer in competing for exceptional talent. Incentives such as the enhanced annual leave benefit or the new travel and relocation benefit for new hires will be particularly helpful.

CONCLUSION

The human capital flexibilities Congress has provided, along with human capital programs and initiatives we are pursuing at NASA, are designed to improve the effectiveness of NASA's human capital management, maintain NASA's position as an "employer of choice," and facilitate achievement of the Agency's mission. While individually they can be powerful tools to address the Agency's workforce challenges, it is in integrating them with each other and with the Agency's mission, goals, and objectives that we will achieve the best results.

RESPONSES TO FOLLOW-UP QUESTIONS FROM MR. JOHNSON

Questions from Senator Voinovich

1. Question: Mr. Johnson, I was pleased to see that on the revised President's Management Agenda scorecard seven agencies have now earned a green on their overall status of human capital management. What more will OMB do to continue moving agencies toward green? What is OMB doing to move itself toward green?

   Answer: With OPM, OMB will continue working with agencies to fulfill the criteria for the human capital initiative, which is attached for your information. Like every agency, OMB is setting clear steps to get to green on the human capital initiative, including setting clear expectations of what our employees are expected to achieve and evaluating them based on their performance.

2. Question: Any changes made to the federal law enforcement retirement, classification and basic pay, and premium pay systems could be quite costly. In a era of rising federal deficits, is this something that we can afford to undertake at this time?

   Answer: Like with every policy decision we make, cost is an important consideration. Personnel policies affecting the Federal law enforcement community is no exception. That is why it is so important that we get the greatest benefit we can for the American people with the pay and benefits we provide all employees, including law enforcement officials.

Questions from Senator Lautenberg

1. Question: OMB's written statement says that "pay surveys reveal that we are currently *overpaying* employees in some occupational groups in some locations." Do your pay surveys also reveal that some federal employees are being underpaid? Based on your pay surveys, how many federal employees are being underpaid versus how many are overpaid? Has OMB quantified the magnitude of these underpayments and overpayments?

   Answer: Survey results do suggest that some federal employees are being underpaid and some are being overpaid. The attached tables show the 2003 National Compensation Survey results broken down by occupational category (i.e, professional, administrative, technical, clerical, and other). They reveal that, in San Francisco, employees in occupations in the "other" category (which includes, but is not limited to, jobs such as police and fire protection who receive additional forms of pay that are not reflected in the pay gap) had a pay gap of 43.53 percent. At the other extreme, clerical occupations in Columbus may be overpaid by as much as 9.63 percent. The table entitled "2003 NCS Pay Gaps by PATCO Category" shows the full pay gap and is not adjusted to reflect the 5 percent adjustment allowed by FEPCA. The locality areas and occupational

categories that would be considered "overpaid" on the basis of these surveys are about 6.7 percent of the total GS workforce.

The methodology of the current survey process leaves much to be desired. For instance, they do not address the comparability of federal benefits and leave to those offered by non-federal employers. As you know, the federal government offers generous retiree health benefits that are becoming increasingly uncommon in the private sector. Comparisons of total compensation would likely suggest that federal compensation is at least comparable, if not greater, than typical non-federal total compensation.

2. Question: Why are you so certain that the new DOD and DHS personnel systems will work? Have you prepared for the possibility that they won't?

   Answer: The missions of DOD and DHS are too important for the new personnel systems not to work. We must attract the right people to protect and defend the United States both at home and abroad. This Administration is committed to doing whatever we can to ensure that the new personnel systems at DOD and DHS work and if we find evidence that they are not working exactly as intended, we will fix them.

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

   Answer: I agree that pass fail performance evaluation systems are not as effective as multi-level performance evaluation systems. That is why we have asked agencies that have pass fail systems to demonstrate that they are moving away from that system. While I do not believe it is necessary or preferable to dictate a uniform performance evaluation system, any system an agency adopts must clearly define what is expected of each employee and objectively rate how they are performing relative to those expectations.

4. Question: Why does the Department of Justice (DOJ) have a red rating from OMB for the overall status of its human capital management program? What is DOJ doing to improve this rating?

   Answer: The Department of Justice has not achieved the criteria for the human capital initiative. For your information, I have attached the criteria we use to assess the status of agency human capital efforts. The Department is taking aggressive steps to meet those criteria, including completing a Department-wide competency/skills gap analysis and developing hiring and training plans to address identified gaps.

STRATEGIC MANAGEMENT OF HUMAN CAPITAL

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Agency: • Implemented a comprehensive Human Capital Plan, analyzed the results, and integrated them into decision making processes to drive continuous improvement; • Analyzed and optimized existing organizational structures from service and cost perspectives, using redeployment and delayering as necessary and integrating competitive sourcing and E-Gov solutions; and has a process in place to address future changes in business needs; • Succession strategies, including structured executive development programs, result in a leadership talent pool and are continuously updated to achieve results; • Has performance appraisal plans for all SES and managers, and more than 60% of the workforce, that: link to agency mission, goals and outcomes; hold employees accountable for results appropriate to their level of responsibility; effectively differentiate between various levels of performance; and provide consequences based on performance. The agency is also working to include all agency employees under such systems; • Reduced under-representation, particularly in mission-critical occupations and leadership ranks; established processes to sustain diversity; • Significantly reduced skill gaps in mission critical occupations and competencies, integrated competitive sourcing and E-Gov solutions into gap reduction strategy; and • Outcome measures are used to make human capital decisions, demonstrate results, make key program and budget decisions, and drive continuous improvement in the agency.	Agency: • Developed, documented and communicated throughout the agency a comprehensive Human Capital Plan that: ▪ Clearly aligns with the agency's mission, strategy and goals; ▪ Fully addresses the Human Capital Standards for Success; ▪ Incorporates metrics for each standard, including timelines for implementation; and ▪ Designates accountable officials • Analyzed and optimizing existing organizational structures from a service delivery perspective, using redeployment and delayering as necessary; • Implemented succession strategies, including structured executive development programs, to assure continuity of leadership; • Implemented performance appraisal plans for SES and managers that link to agency mission, goals and outcomes, effectively differentiate between various levels of performance, and provide consequences based on performance; • Implemented strategies to address under representation, particularly in mission-critical occupations and leadership ranks; • Implemented a workforce planning system to identify and address gaps in mission critical occupations and competencies, and developed short- and long-term strategies and targeted investments in people to create a quality workplace that continues to attract and retain talent; • Developed a planning and accountability system using metrics, including the Federal Human Capital Survey (FHCS) results, to evaluate performance on all of the Human Capital Standards.	Agency: • Lacks a comprehensive Human Capital Strategy; • Has not done analysis or initiated steps to ensure that its organizational structure is optimal for service delivery; • Has not identified leadership gaps and implemented succession strategies to assure continuity of leadership; • Has not implemented a performance appraisal system for SES and managers that is linked to agency mission, goals and outcomes, effectively differentiates between various levels of performance, and provides consequences based on performance; • Has not identified under-representation or implemented strategies to address it; • Has not implemented a workforce planning system to identify and address gaps in mission critical occupations and competencies in people to create a quality workplace that continues to attract and retain talent; • Has not developed a planning and accountability system using metrics, to evaluate human capital management.

2003 NCS Pay Gaps by PATCO Category--Adjusted for 2004 Locality Payments

LOCAL SURVEY AREA	Mar-03 BASE GS PAYROLL	2004 Locality Rate	Prof	Admin	Technical	Clerical	Other	All
Atlanta	1,313,716,262	12.61%	19.29%	24.62%	10.51%	7.91%	-2.28%	20.14%
~~Boston~~	~~1,275,591,631~~	~~16.90%~~	~~19.78%~~	~~21.99%~~	~~18.03%~~	~~5.18%~~	~~18.00%~~	~~19.45%~~
Chicago	1,068,776,615	18.26%	18.93%	18.98%	2.64%	0.98%	15.14%	15.85%
Cincinnati	352,131,919	15.07%	12.39%	10.31%	1.03%	-1.41%	15.23%	7.47%
Cleveland	441,237,815	13.14%	17.01%	16.51%	8.35%	-0.83%	16.81%	14.55%
Columbus	400,365,499	13.14%	11.30%	9.86%	2.89%	-9.63%	20.24%	8.01%
Dallas	855,709,259	13.85%	17.41%	19.93%	12.38%	0.85%	10.89%	17.04%
Dayton	522,252,157	12.03%	11.26%	9.73%	1.62%	0.25%	14.99%	8.93%
Denver	1,006,388,748	16.66%	19.71%	17.86%	10.19%	0.93%	10.94%	16.96%
Detroit	637,289,802	18.32%	13.27%	15.23%	8.51%	3.39%	9.85%	13.24%
Hartford	214,982,173	17.87%	22.04%	23.92%	20.28%	6.81%	32.66%	22.04%
Houston	598,129,100	23.14%	14.03%	17.18%	9.12%	-2.14%	0.14%	13.89%
Huntsville	609,454,291	11.49%	15.48%	12.21%	6.78%	10.46%	3.87%	13.46%
Indianapolis	308,886,867	11.11%	17.41%	16.87%	2.59%	1.21%	18.07%	12.93%
Kansas City	772,753,084	11.54%	8.75%	13.82%	-1.51%	-5.45%	-1.61%	8.36%
Los Angeles	1,732,165,127	20.05%	20.41%	18.40%	11.52%	6.09%	21.32%	17.28%
Miami	568,221,437	15.54%	11.16%	20.82%	1.25%	-0.28%	6.16%	14.25%
Milwaukee	165,125,133	12.64%	11.68%	14.50%	9.67%	-2.16%	9.14%	11.69%
Minneapolis	330,303,569	14.75%	16.48%	18.89%	10.53%	3.81%	17.12%	15.57%
New York	2,596,165,521	19.29%	21.90%	25.03%	12.49%	5.85%	30.22%	21.40%
Orlando	230,418,434	10.93%	5.64%	7.64%	-2.15%	-4.89%	-7.28%	4.02%
Philadelphia	1,453,206,497	15.32%	20.40%	18.84%	16.14%	5.00%	15.49%	17.96%
Pittsburgh	307,407,671	11.92%	13.00%	14.99%	8.56%	3.65%	11.29%	12.31%
Portland	504,501,611	14.69%	15.96%	16.92%	13.74%	1.80%	6.91%	15.45%
Richmond	397,470,057	12.13%	16.53%	18.98%	2.91%	-5.31%	3.76%	13.96%
RUS	22,909,110,915	10.90%	12.38%	15.52%	4.41%	-5.47%	8.49%	10.71%
Sacramento	305,277,058	15.18%	18.67%	19.43%	12.66%	2.62%	4.31%	17.41%
St. Louis	575,736,718	11.27%	7.34%	8.55%	0.07%	-3.92%	7.11%	5.42%
San Diego	902,207,649	18.16%	21.45%	22.38%	16.80%	3.93%	28.95%	20.99%
San Francisco	1,302,937,596	24.21%	27.00%	27.16%	17.37%	12.61%	43.53%	25.28%
Seattle	1,098,040,067	15.12%	17.90%	20.31%	19.68%	10.67%	32.51%	19.26%
Washington	15,198,207,466	14.63%	21.91%	19.38%	12.01%	5.39%	18.01%	19.18%
TOTAL/WEIGHTED AVERAGES	$60,954,167,748	13.86%	16.85%	17.87%	8.62%	0.64%	13.95%	15.10%

March 2004 GS Employment By Locality Pay Area and PATCO Category

2004 LOCALITY PAY AREA	Prof	Admin	Technical	Clerical	Other	All
Atlanta	5,706	11,132	5,149	3,629	624	26,240
Boston	6,674	8,948	6,394	3,403	719	26,138
Chicago	4,486	9,153	4,043	1,917	420	20,019
Cincinnati	1,530	2,027	3,230	**2,421**	46	9,254
Cleveland	2,344	2,850	2,198	**731**	153	8,276
Columbus	1,529	3,447	1,912	**509**	89	7,486
Dallas	3,853	7,108	3,905	1,252	600	16,718
Dayton	2,740	3,983	1,971	1,073	270	10,037
Denver	5,136	6,817	3,498	1,265	400	17,116
Detroit	2,842	5,782	2,228	982	528	12,362
Hartford	720	1,260	723	273	100	3,076
Houston	3,794	3,863	1,989	**814**	257	10,717
Huntsville	4,058	3,687	935	538	221	9,439
Indianapolis	1,401	2,196	2,191	627	50	6,465
Kansas City	2,625	6,205	**4,409**	**3,736**	**420**	17,395
Los Angeles	7,604	14,011	8,804	3,488	2,109	36,016
Miami	1,698	5,294	2,147	**855**	616	10,610
Milwaukee	706	1,330	1,093	**413**	95	3,637
Minneapolis	1,623	2,450	1,758	719	78	6,628
New York	11,823	19,088	11,119	4,458	1,780	48,268
Orlando	1,166	1,448	**818**	**300**	**60**	3,792
Philadelphia	5,572	11,638	7,932	5,222	1,182	31,546
Pittsburgh	1,504	2,069	2,109	666	117	6,465
Portland	2,808	3,578	2,562	735	279	9,962
Richmond	1,704	3,408	1,928	**963**	467	8,470
RUS	107,476	172,475	161,178	**64,379**	33,846	539,354
Sacramento	1,807	2,114	1,322	676	84	6,003
St. Louis	2,004	4,572	3,847	**1,933**	149	12,505
San Diego	3,315	7,144	4,463	1,858	2,287	19,067
San Francisco	6,158	9,637	5,776	2,113	736	24,420
Seattle	5,973	7,589	6,624	1,991	675	22,852
Washington	68,473	124,933	30,186	17,852	4,023	245,467
TOTALS	280,852	471,236	298,441	131,791	53,480	1,235,800

RESPONSES TO FOLLOW-UP QUESTIONS FROM MR. BLAIR

Follow-up Questions to the July 20, 2004 Hearing
Building the 21st Century Federal Workforce:
Assessing Progress in Human Capital Management

Questions from Senator Voinovich

Q. A significant reform modernizing the federal civil service was adopted by Congress in the Homeland Security Act. In Section 1304 OPM was directed to issue regulations to assist agencies with strategic human capital management. These regulations have not been issued. What has been the delay in publishing these regulations?

A. The Office of Personnel Management (OPM) has established an outstanding record of assisting agencies with their strategic human capital management even in advance of issuing the regulations called for by the Chief Human Capital Officers Act. Many elements of our ongoing efforts to support the Strategic Management of Human Capital initiative of the President's Management Agenda are directly related to such matters as defining a set of systems with related metrics for assessing agencies' human capital management. Owing to their importance and impact, OPM is convinced that the Government's interests are better served by applying the lessons we are learning in agencies' initial efforts at developing and applying such systems and metrics as we craft appropriate regulations. In addition, the 2004 National Defense Authorization Act added a related requirement for OPM to regulate standard questions to use in annual employee surveys each agency must undertake. In this regard, we wanted to make sure that the metrics we developed for the system regulations would support the surveys the Congress mandated.

Q. In the report, OPM said that the federal law enforcement systems for classification, retirement, and pay are a patchwork of legislation, litigation, and MSPB rulings. If OPM is given broad authority to work with agencies to design agency specific systems, what type of safeguards could you provide so that one agency or a given occupation does not have an unfair advantage over another, as is the case now?

A. In this report, we make a case for a comprehensive, integrated Governmentwide approach for addressing pay and benefits for Federal law enforcement employees. We recommend a framework established and administered by OPM in consultation with employing agencies and with the concurrence of the Attorney General. Both agency interests and Governmentwide interests would be considered and balanced. The Attorney General's concurrence will ensure that law enforcement personnel Governmentwide are deployed in the most efficient and effective manner.

Such a framework would provide all agencies with similar flexibilities that could potentially avoid morale problems, staffing disruptions, or unnecessary cost increases. We believe the existence of such a framework also would reduce the likelihood that particular groups would obtain higher pay and benefits through the legislative process in piecemeal fashion. Issues such as pay ranges and pay adjustments would be coordinated among affected agencies. With all affected agencies at the same table, each agency will need to make its

case not only to OPM, but to similarly situated agencies as well.

OPM understands that with greater authority and flexibility comes greater accountability. We are ready to accept that responsibility and believe focusing accountability will result in a better system. We are convinced that the current state of affairs has actually diffused accountability and has resulted in policies that are inconsistent and not sufficiently focused on mission results and Governmentwide interests. Through coordination with employing agencies and with the concurrence of the Attorney General, OPM will be able to ensure that both agency and Governmentwide interests are considered and balanced in establishing retirement and pay policies for law enforcement employees.

Q. The findings section of the retirement benefits portion of the law enforcement report states that "administrative and judicial decisions interpreting the Law Enforcement Officer (LEO) definition have created inconsistencies in LEO retirement coverage and weakened the program as a management tool." Given the fact that OPM is asking for broad authority to establish a government-wide law enforcement framework, can you protect against future inconsistencies in administrative and judicial interpretations that have led to the creation of a patchwork system?

A. In this report, OPM stated that it would use this authority, in consultation with employing agencies and with the concurrence of the Attorney General, as a workforce management tool to modernize LEO retirement and make it more flexible and adaptable to the rapidly evolving needs of the law enforcement community. If broad authority over retirement is granted, OPM would bring agency representatives and interested parties together in some form of official working group for the consideration of law enforcement pay and benefit issues. In whatever decision-making structure that is ultimately established, OPM would coordinate and oversee the proceedings of the decision-making body. Any decision or recommendation from the group would require OPM approval and the concurrence of the Attorney General. Through this process, potential problems concerning pay and retirement could be brought before the working group for consideration and action, if necessary. OPM would seek to permit workforce flexibility without creating unnecessary differences in pay and benefits. The Attorney General could ensure that the overall law enforcement mission requirements of the Government are considered.

Regarding the review of LEO retirement coverage issues, since law enforcement retirement impacts workforce composition and staffing, agencies' responsibility over their workforces and their mission performance should be enhanced. We believe the administrative review process used in position classification should be the starting point for discussion of the review process appropriate for law enforcement retirement coverage decisions.

Q. In 1993, OPM issued a report that said they should develop a job evaluation and pay system tailored to law enforcement employees. How does this report differ from the one you released last week?

A. In response to a statutory requirement, OPM issued a report to Congress entitled "A Plan to Establish a New Pay and Job Evaluation System for Federal Law Enforcement Officers" in September 1993. The report focused on job evaluation, pay, and recruitment and retention issues for law enforcement employees in the Executive branch. After analyzing these issues, OPM recommended establishing a job evaluation and pay system linked to the General Schedule and tailored to law enforcement employees. The report did not make a recommendation on retirement benefits or any specific recommendations on premium pay provisions.

In comparison to the 1993 report, OPM's June 2004 report—entitled "Federal Law Enforcement Pay and Benefits"—looks at the issue of compensation for Federal law enforcement employees with greater breadth and depth. This report considers the entire Federal law enforcement workforce, not only employees in the Executive branch. Also, instead of focusing only on job evaluation (or classification) and pay issues, the 2004 report considers classification, basic pay, and premium pay along with retirement provisions to present the full picture of Federal law enforcement pay and benefits. At the same time, the 2004 report provides much more detail in describing the history, issues, and problems in each of these areas.

In the 2004 report, we recommend that Congress provide OPM with broad authority to establish a Governmentwide framework for law enforcement retirement, classification and basic pay, and premium pay systems. This framework would be established in consultation with employing agencies and with the concurrence of the Attorney General and would be tailored specifically for law enforcement jobs and their mission requirements. In the areas of classification and basic pay, this recommendation allows for more flexibility than the 1993 recommendation in that the system is not envisioned as being linked to the General Schedule. Most importantly, the 2004 recommendation considers retirement, classification and basic pay, and premium pay together in proposing an integrated solution.

Questions from Senator Lautenberg

Q. How are agencies using the student loan repayment flexibilities? Has OPM issued any regulations or guidance on how agencies should use these flexibilities?

A. In May 2004, OPM submitted a report to Congress on agencies' use of the Federal student loan repayment program in Fiscal Year (FY) 2003. We reported that Federal agencies used the student loan repayment incentive to recruit and retain three times as many employees in FY 2003 as in the previous fiscal year and invested nearly three times as much funding in this valuable human capital management tool. During FY 2003, 24 agencies provided more than $9.1 million in student loan repayment benefits to 2,077 employees. Notably, more than half of the 63 reporting agencies made payments during FY 2003, have an agency loan repayment program in place, or are in the process of establishing an agency student loan repayment plan.

Agencies may use student loan repayment as a management tool to either recruit or retain highly qualified personnel. In preparing our FY 2003 report, we asked agencies if the use of student loan repayment had improved agency recruitment and retention efforts. The vast majority of the responding agencies stated that use of the program assisted them in recruiting and retaining highly qualified personnel. Of the agencies who responded to this question, nine reported that the program has assisted them with both recruitment and retention, four focused solely on retention, and two used the program only as a recruitment tool. Agencies may also decide to use the program differently for separate groups of employees. For example, the Department of State reported that it primarily uses the incentive as a retention tool for civil service employees in positions identified as difficult to staff or retain. For Foreign Service employees, however, the Department uses the program for the "internal recruitment" of employees to specific foreign posts that have traditionally been difficult to staff.

Final implementing regulations for the Federal student loan repayment program were published on January 11, 2001 (66 FR 2790). The regulations describe criteria and procedures for establishing and administering an agency student loan repayment program (e.g., setting up an agency loan repayment plan, employee eligibility, criteria for payment, procedures for making loan repayments and administering service agreements). On October 30, 2000, the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001 (Public Law 106-398) broadened the scope of employees and types of loans eligible under the program and instituted requirements for agency reports to OPM and an annual OPM report to Congress. OPM published a new set of final regulations on July 31, 2001 (66 FR 39405) to implement these provisions. Following passage of the Federal Employee Student Loan Assistance Act (Public Law 108-123, November 11, 2003), the regulations were amended again to increase the amount agencies may repay on behalf of an employee from $6,000 to $10,000 in any calendar year and from $40,000 to a total of $60,000 for any one employee (69 FR 21039, April 20, 2004).

To assist agencies in making better use of the student loan repayment authority, we have numerous reference materials available on the OPM Web site (www.opm.gov). The Web site includes a fact sheet on the student loan repayment program, questions and answers on administering student loan repayments and the tax implications relating to student loan repayments, and two sample loan repayment plans to help agencies develop their own programs. Our FY 2002 and FY 2003 reports to Congress on agencies' use of the program are also available. In addition to Web guidance, we have continued to respond to numerous telephone calls and email messages from agencies requesting assistance as they develop and administer their student loan repayment plans. Also, to provide more control, standardization, and efficiency from a payroll standpoint, and to ease the administration of the statutory reporting requirement, we established a new Nature of Action (NOA) code 817 for submission to the Dynamics file of the Central Personnel Data File. We announced the new NOA code in a memorandum to human resources directors on October 27, 2003. Agencies will now be able to submit an NOA code 817 for each employee authorized to receive student loan repayment benefits in each fiscal year.

We look forward to continuing to work closely with agencies to assist them in taking full advantage of this program, as well as other existing recruitment and retention incentives, to attract and retain well-qualified, high-performing employees.

Q. Does OPM plan to publish regulations or guidance concerning implementation of the SES pay for performance system? If so, when?

A. On July 29, 2004, regulations were issued in the Federal Register to implement the new performance-based pay system for the Senior Executive Service (SES). The Office of Personnel Management (OPM) and the Office of Management and Budget (OMB) jointly issued interim final regulations setting forth the criteria for obtaining certification of performance appraisal systems for members of the Senior Executive Service (SES) and employees in senior-level (SL) and scientific or professional (ST) positions. The certification regulations are designed to assist Federal agencies in assuring that their senior employee performance management systems make meaningful distinctions based on relative performance, thereby strengthening the linkage between performance and pay.

OPM also issued detailed guidance to assist agencies in submitting requests for full or provisional certification of their performance appraisal systems in keeping with the interim final regulations.

On December 6, 2004, OPM issued final regulations to implement the basic pay and pay administration features of the new SES pay-for-performance system. At the same time, we issued comprehensive written guidance to Federal agencies regarding pay administration under the new system. On December 9, we conducted the third in a series of half-day SES forums designed to assist human resources specialists in understanding and applying the SES certification and pay regulations.

Once an agency has received provisional or full certification of its performance appraisal systems for senior employees, the agency will be permitted to (1) pay its highest-performing SES members above the rate for level III of the Executive Schedule—up to the rate for level II of the Executive Schedule—and (2) apply a higher aggregate limitation—up to the Vice President's salary—to both SES members and SL/ST employees.

We will continue to work with agencies to implement the new SES pay-for-performance pay system, which is an important component of the President's Management Agenda and a vital step toward reforming pay and performance systems throughout the Federal Government.

Q. How many federal government employees are (or will be) covered by:
- -- New Department of Defense National Security Personnel System
- -- New Department of Homeland Security personnel system
- -- Other personnel systems with significant flexibilities (e.g., NASA, GAO)

How many federal government employees are not covered by any of these personnel systems?

A. The Department of Defense (DOD) and the Department of Homeland Security (DHS) have been given authority to waive or modify specific provisions of title 5, United States Code. Those provisions relate to several different personnel subsystems—e.g., classification and pay, labor relations, and employee appeals. Employee coverage under the title 5 subsystems and under the new DOD or DHS subsystems varies by subsystem. Since we believe that the focus of the above questions is probably on pay-related flexibilities and since we have readily available data on pay plan coverage, our answer addresses the new DOD and DHS *pay systems* and other *pay systems* with significant flexibilities. We consider pay systems to have significant flexibilities if the statutory authority gives the responsible agency broad discretion in designing and modifying the pay system and/or in setting the rates of pay (even if the agency uses that flexibility to create a rigid system).

The new pay systems that will be established by DOD and DHS are in lieu of pay systems established under chapters 51 and 53 of title 5, United States Code. Thus, the new DOD and DHS pay systems may cover only those employees who otherwise would have been covered by those title 5 pay systems. Thus, DOD and DHS employees under the following systems will be *eligible* for coverage: the General Schedule (GS), the Federal Wage System (FWS), the senior-level system established under 5 U.S.C. 5376 (SL/ST), and the Senior Executive Service (SES). (Note: Chapter 53 also establishes pay systems for administrative law judges and members of boards of contract appeals, but we believe the small number of DOD and DHS employees in these categories will be left in the standard title 5 pay systems.) While employees in the listed categories are *eligible* for coverage under the new DOD and DHS systems, it is not clear whether or when employees in those categories will actually be covered under a new pay system. For example, at this time, DHS does not plan on immediately covering FWS employees under a new DHS pay system. DHS has indicated its intent to cover all of its GS employees under the new DHS pay system in phases.

DOD Pay System (to be established under the National Security Personnel System authority in 5 U.S.C. 9902)

Number of eligible employees by pay plan (June 2004 Central Personnel Data File):

GS	440,522	
FWS	145,321	
SL/ST	148	
SES	1,179	
Total	587,170	(out of total of 666,644 employees in DOD)

Note: DOD has 44,888 employees covered by special pay plans under demonstration projects. DOD also has 12,343 employees covered by miscellaneous administratively determined pay plans; 10,456 covered by GS-similar pay plans; and 10,900 covered by the DOD Education Activity pay plan for teaching positions.

DHS Pay System (to be established under 5 U.S.C. 9701)

Number of eligible employees by pay plan (June 2004 Central Personnel Data File):

GS –	89,413
FWS –	2,369
SL/ST –	7
SES –	276
Total	92,065 (out of a total of 160,266 employees in DHS)

Note: DHS has 60,838 employees in the Transportation Security Administration who are covered by a separate flexible pay authority. Also, DHS has about 5,500 FEMA employees covered by the Stafford Act, which provides pay setting flexibility (AD pay plan code).

Other Pay Systems with Significant Flexibilities

OPM's Central Personnel Data File (CPDF) does not include data for judicial branch agencies or for certain legislative branch agencies such as GAO. From other sources, we understand that GAO has over 3,000 employees under flexible, pay-for-performance pay plans.

The CPDF also does not have data for various agencies in the executive branch, with the most significant excluded agencies being the U.S. Postal Service and the intelligence agencies.

As of June 2004, the CPDF shows 1,881,108 employees (counting all employees regardless of type of work schedule or appointment). This count includes DOD and DHS employees (including SES members and SL/ST employees who are eligible to be covered by the new pay systems but who are already covered by a flexible pay system under title 5). Based on information available to us, we have identified the following pay systems as ones with "significant flexibilities":

Pay Plans with Significant Flexibilities

Pay Plan Code	Employees Covered	Number of Employees	Notes
AD	Any employee covered by one of the miscellaneous administrative pay setting authorities	49,790	
Misc (see Notes)	Employees in financial regulatory agencies (FDIC, NCUA, SEC, OCC, OTS, FCA, FHFB)	14,187	Pay plan codes: CG, CM, CU, EM, EO, NB, SK, SO, SS, TF, TG, TM, TS, VH
ED, EE, EF, EG	Experts or consultants appointed under 5 U.S.C. 3109 or similar authority	3,366	
AT, EV, FG, FM, FV	Employees of the Federal Aviation Administration (FAA)	47,731	About 9,100 of these FAA employees are still covered by systems that parallel the GS system (pay plan codes FG and FM).
SV,SW	Employees of the Transportation Security Administration (TSA)	60,838	
Misc. (see Notes)	Employees covered by various DOD demonstration projects	44,888	Pay plan codes: DA, DB, DE, DG, DJ, DK, DP, DR, DS, DT, NC, ND, NG, NH, NJ, NK, NO, NP, NR, NT
ZA, ZP, ZS, ZT	Employees covered by the Commerce and NIST demonstration projects	6,917	All NIST employees are covered, as well as employees in some other organizations in Commerce.
ES	Members of the Senior Executive Service (SES)	7,078	
FE	Senior Foreign Service	1,027	
SL, ST	Senior-level positions paid under 5 U.S.C. 5376	819	
IR	Managers covered by IRS broadbanding systems	2,080	Pay-for-performance system established under 5 U.S.C. 9509.
TR	Police officers employed by the Bureau of Engraving and Printing and the U.S. Mint	611	GS-like step system established using flexible authority in section 109 of FEPCA (Public Law 101-509)
NX, NY	Employees of the Corporation for National and Community Service	474	
RS	Employees in the Senior Biomedical Research Service	232	Established by section 304 of FEPCA (Public Law 101-509) for HHS Public Health Service.
	TOTAL	240,038	

In addition, the National Aeronautics and Space Administration (NASA) has certain special pay flexibilities for employees who are under the standard title 5 pay systems (e.g., the General Schedule). These flexibilities include special basic pay increases for current GS employees based on qualifications and enhanced recruitment, relocation, and retention payments. About 19,000 NASA employees are potentially affected. We note that NASA also has a special AD authority called the NASA Excepted Appointment authority, which allows NASA to hire up to 425 scientific, engineering, or administrative employees without regard to title 5 pay provisions, subject to an Executive Level III cap. (NASA had over 130 employees in this category as of December 2003.) These employees are included under the AD category in the above table.

In summary, out of the 1.88 million employees in the CPDF database, we estimate that roughly 240,000 are covered by pay plans with significant flexibilities. In addition, almost 680,000 DOD and DHS employees may become eligible to be covered by such flexible pay plans in the future. If the DOD and DHS eligible employees are included, the total is roughly 920,000, leaving a remainder of 960,000.

Q. The Chief Human Capital Officers Act of 2002 (CHCO Act) allows agencies to utilize a streamlined approach to rating and ranking federal job applicants: category rating. How will OPM ensure that agencies don't misuse this authority to hire less qualified applicants in violation of merit system principles?

A. OPM has provided a number of briefings and presentations to agencies on the HR flexibilities contained in the CHCO Act, including category rating. We have included information on category rating procedures in our Delegated Examining Operations Handbook which is the handbook used by all agencies with delegated examining authority. Similar information will be placed on our website. Finally, we will assess how agencies are using category rating during our periodic agency audits of their delegated examining function.

In addition to OPM's role to ensure that agencies don't misuse the authority, agencies must also report to Congress on their use of a category rating system. Agencies are required to report:

(1) the number of employees hired under that system;
(2) the impact that system has had on the hiring of veterans and minorities, including those who are American Indian or Alaska Natives, Asian, Black or African American, and native Hawaiian or other Pacific Islanders; and
(3) the way in which managers were trained in the administration of that system.

Q. Two other new flexibilities added by the CHCO Act are the Voluntary Separation Incentive Payment (VSIP) Program and the Voluntary Early Retirement Authority (VERA). How will OPM assure that agencies don't use these authorities as a means to coerce older employees to retire?

A. OPM has included language in the recently published final VERA regulation, and in the soon to be published final VSIP regulation, that specifically states that employees must not be coerced into accepting VERA and/or VSIP—and that agencies must take corrective action where coercion may be occurring. Similar language will be placed in the VERA and VSIP guides that will be aimed at agency human resources specialists and placed on OPM's web page. Finally, OPM conducts periodic human resources evaluations at agencies. Whenever any coercion in the VERA/VSIP process is brought to the attention of the OPM evaluation team members, such activity will be fully investigated.

Q. According to news reports, federal employee groups have objected to the recommendations in the Administration's recent report on law enforcement pay, benefits and classification. Why should Congress cede its authority to set law enforcement pay and benefits to OPM or the Executive Branch? Won't the Administration's proposal just "put law enforcement compensation up for grabs every time the White House changed hands?" Has Congress ever allowed retirement benefits to be set by regulation rather than statute?

A. Granting flexibility to agencies with OPM acting in a coordinating role would be consistent with existing efforts. What we are seeking in this area is greater flexibility for all agencies to "level the playing field."

We admit that our retirement recommendation would break new ground. What we are proposing has no precedent. However, as discussed in our report, law enforcement retirement is intended to be a workforce management tool to maintain a young and vigorous workforce. Piecemeal legislation, the restrictive definition of "law enforcement officer," and litigation has reduced the effectiveness of the law enforcement program as a workforce management tool. We believe that our proposal would improve the ability of agencies to effectively manage their law enforcement workforces. Our proposal would allow agencies to respond more rapidly and with greater flexibility to the rapid evolution of Federal law enforcement and the changing demands on the Federal law enforcement community.

Although pay and classification standards are subject to change, we are aware that retirement is a long-term benefit which should not be subject to arbitrary change. As discussed in our report, we are aware that changing retirement for existing employees would have significant staffing effects, which must be addressed. In addition, employees justifiably expect consistency in retirement benefits in order to plan for their eventual retirement. We are also aware that many employees rely on the retirement program as it currently exists. While some changes may be necessary, we will attempt to minimize the effects of any changes for current employees.

Concerning possible changes by future Administrations, indiscriminate change to law enforcement retirement is not in the Government's interest. As noted in our report, changing the retirement system has significant staffing effects which make radical changes for existing employees problematical. Further, regulatory changes would require notice and comment rulemaking and review. We also anticipate that Congress would provide broad guidelines for the exercise of the authority requested.

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

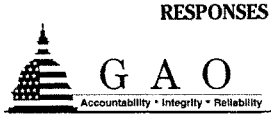
-- Create a large incentive for favoritism in making awards, since they are not linked to any objective performance measure?

A. Since 1995, Governmentwide regulations have given covered agencies the flexibility to use two-level (i.e., pass/fail) appraisal programs for their non-SES employees. At the height of its popularity, almost half of the eligible employees were covered by this type of appraisal program. However, this trend is changing and agencies are moving to appraisal programs with more rating levels in order to make performance distinctions based on their appraisal results. At different times, several agencies, not only those that use pass/fail appraisal programs, have chosen to "delink" their awards from their performance evaluations. Delinking awards from the evaluations does not mean that they are not based on performance. This approach to granting awards does not result in a large incentive for favoritism. These awards are often based on other types of performance measures that might reflect group performance or exceptional contributions by an employee on a special project or single aspect of his/her job. Rating-based awards are given for the employee's overall performance during the appraisal period. Also, some agencies that use pass/fail programs for the summary rating of their employees make distinctions among the employees who pass based on performance information that underlies the final rating.

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

A. While multi-level rating systems provide a mechanism in the appraisal process for making performance distinctions, they do not and can not in themselves guarantee that meaningful distinctions will be made. The previous five-level rating systems still suffered from credibility issues. The credibility of appraisal systems relies heavily on employee buy-in, which is often difficult to achieve. This is especially true when employees believe an appraisal system has been imposed from outside the organization by people who do not understand the organization's needs or culture. Other incentives, such as laws that rely on agencies making performance distinctions among employees through their appraisal process would be more effective than imposing a mandatory, uniform multi-level performance appraisal system.

RESPONSES TO FOLLOW-UP QUESTIONS FROM MR. MIHM



United States Government Accountability Office
Washington, DC 20548

September 3, 2004

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

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

Dear Chairman Voinovich:

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

Questions from Senator Voinovich

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

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

[1] GAO, *Human Capital: Building on the Current Momentum to Transform the Federal Government*, GAO-04-976T (Washington, D.C.: July 20, 2004).
[2] GAO, *Managing for Results: Using Strategic Human Capital Management to Drive Transformational Change*, GAO-02-940T (Washington, D.C.: July 15, 2002).

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

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

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

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

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[3] GAO, *GAO: Transformation, Challenges, and Opportunities*, GAO-03-1167T (Washington, D.C.: Sept. 16, 2003).
[4] GAO, *Human Capital: Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces*, GAO-03-2 (Washington, D.C.: Dec. 6, 2002).
[5] GAO, *Government Management: Observations on OMB's Management Leadership Efforts*, GAO/T-GGD-AIMD-99-65 (Washington, D.C.: Feb. 4, 1999).
[6] GAO, *Human Capital: OPM Can Better Assist Agencies in Using Personnel Flexibilities*, GAO-03-428 (Washington, D.C.: May 9, 2003).

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

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

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

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

Questions from Senator Akaka

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

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

[7] GAO, *Major Management Challenges and Program Risks: Office of Personnel Management*, GAO-03-115 (Washington, D.C.: January 2003).
[8] GAO, *Human Capital: Opportunities to Improve Executive Agencies' Hiring Processes*, GAO-03-450 (Washington, D.C.: May 30, 2003).

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

ARS and FS did have one unique authority, under a pilot project implemented from 1990 to 1998, to use the category rating process. As you know, this alternative rating and selection procedure can provide agency managers with a larger pool of qualified job candidates from which to select than numerical ranking and the "rule of three," while also protecting veterans' preference. Because evaluations of the pilots showed the category rating process to be effective, both ARS and FS received permanent legislative authority to use this flexibility beginning in October 1998,[9] and Congress extended this authority governmentwide in the Homeland Security Act of 2002.[10]

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

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

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

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

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

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[9] Section 749 of Pub. L. No. 105-277 (Oct. 21, 1998).
[10] Section 1312 of Pub. L. No. 107-296 (Nov. 25, 2002).
[11] GAO-03-2.
[12] GAO, *Human Capital: Key Practices to Increasing Federal Telework*, GAO-04-950T (Washington, D.C.: July 8, 2004).
[13] GAO, *Securities and Exchange Commission: Human Capital Challenges Require Management Attention*, GAO-01-947 (Washington, D.C.: Sept. 17, 2001).

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

Questions from Senator Lautenberg

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

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

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

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

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

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

[14] GAO-03-2.

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

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

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

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

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

[15] GAO, *Human Capital: Selected Agencies' Use of Alternative Service Delivery Options for Human Capital Activities*, GAO-04-679 (Washington, D.C.: June 25, 2004).
[16] *Improving the Sourcing Decisions of the Government*, Commercial Activities Panel, April 30, 2002. The panel, convened by GAO, consisted of representatives from agencies, federal labor unions, and private industry, as well as other individuals with expertise in the area.
[17] Office of Management and Budget Directive 92-1.

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

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

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

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

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

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

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

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

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

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

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

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

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

Sincerely yours,

J. Christopher Mihm
Managing Director, Strategic Issues

(450357)

[19] GAO, *Results-Oriented Cultures: Creating a Clear Linkage between Individual Performance and Organizational Success*, GAO-03-488 (Washington, D.C.: Mar. 14, 2003).
[20] For more information, see GAO, *Human Capital: Senior Executive Performance Management Can Be Significantly Strengthened to Achieve Results*, GAO-04-614 (Washington, D.C.: May 26, 2004).
[21] GAO, *Human Capital: Implementing Pay for Performance at Selected Personnel Demonstration Projects*, GAO-04-83 (Washington, D.C.: Jan. 23, 2004).

RESPONSES TO FOLLOW-UP QUESTIONS FROM MR. SONTAG

QUESTIONS FROM SENATOR VOINOVICH:

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

Yes – the potential is there for the Council to play a valuable role. The Chief Human Capital Officers Act of 2002 charges Human Capital Officers with advising and assisting in developing training and managing a high quality workforce. The training of human resources staff is a crucial first step toward ensuring these objectives are achieved and the Council provides an excellent forum for sharing strategies for design and implementation of human resources training programs. The Department of Health and Human Services has created a University to address common needs training across our component agencies, and has consolidated human resources activities – measures that will facilitate development and administration of human resources training.

The Council should continue some of it current activities in areas such as the CHCO Academy which was created to serve as a forum for council members to learn from one another and share best practices. The Academy, which meets on a monthly basis, has considered such topics as current work force flexibilities under Title 5, United States Code, human resources competitive sourcing, and compensation and hiring reform. Now the Council should ensure that the information being shared through the Academy is translated into training materials for operational elements of the human resources workforce. The Council's five subcommittees are focused on key areas of civil service reform that includes emergency preparedness, the federal hiring process, performance management, leadership development, and employee conduct. The subcommittees should ensure that critical information from these key areas is included in human resources training programs.

2. Significant reforms to the Federal civil service were enacted by Congress as part of the Homeland Security Act. What has been your experience with the CHCO Council's efforts to help implement these flexibilities?

The mandate of the CHCO Council is daunting. It includes ensuring the development of strategic succession plans for addressing agency's hiring needs; promoting clear lines of accountability to integrate human resources issues into agency's broader management agendas; and determining appropriate metrics for measuring progress in addressing workforce management areas that need improvement. Chief Human Capital Officers and human resources professionals are aware of the hiring flexibilities currently available to improve the federal hiring process. As a group, they are committed to fully utilize all available hiring flexibilities, including special vehicles for veterans hiring, student and excepted service employment authorities, as well as direct-hire authority and category rating. The ability of the Council to help implement these flexibilities is significantly

limited by time constraints – members have other duties that limit the time that can be devoted to CHCO Council activities. Progress will necessarily be limited as long as the CHCO positions are secondary roles. Implementation of hiring flexibilities will necessarily occur at the agency level, and the role of the CHCO Council in this area is thus limited primarily to educating the HR community and promoting the use of these hiring tools.

The Department of Health and Human Services has used most of the available flexibilities and has made extensive use of two important flexibilities: (1) Voluntary Separation Incentive Payments (VSIP) Program and (2) Voluntary Early Retirement Authority (VERA), both of which were authorized under the CHCO Act. These programs have provided HHS with an extremely important and effective flexibility that helps us in reshaping and re-skilling our workforce to meet changing mission demands. We believe that the CHCO Council can play an important role in dissemination of information regarding successful restructuring efforts such as those achieved by HHS.

3. HHS has taken many steps to reorganize its management structure through the One HHS initiative, including human resources. To what extent has the department solicited the input of its line employees in this reorganization effort?

Input from line employees was gathered and utilized extensively in the Human Resources Office Consolidation process. The staff was engaged in documenting existing organizational structures, defining the population served by human resources offices, and documenting the services provided. In addition, line staff contributed to the definition of appropriate performance indicators and developing process improvements. Based on these inputs, Service Level Agreements were built into the performance plans for human resources staff. An advisory committee assisted in the transition and the reassignment of staff, and made recommendations on the selection of the supervisory staff for the new organization's key positions.

Specific actions to solicit input from line employees included establishment of a Human Resources Transition Committee (HRTC) and project management team that oversaw all aspects of this effort; conduct of a series of meetings, including "All-Hands" meeting of HR staffs, to explain in detail the restructuring decision, the approach we took to implement it, and to answer questions and provide as much information as possible to the HR community; establishment of a subcommittee that focused specifically on a broad range of communications issues; conduct of a series of focus group meetings with HR staff and scientific and administrative managers to gain information/data that was used for project implementation; establishment of a committee to recommend "ground rules" for staffing new HR Offices; and establishment of an HR Advisory Committee in keeping with the established organizational model.

4. Would you please describe for me in greater detail how the "Emerging Leaders" operates? How is it coordinated with existing flexibilities and programs, including student loan repayment authority or the Presidential Management Fellows program.

The Department-wide Emerging Leaders Program is one of many tools designed to assist us with recruitment efforts in today's challenging markets. The program provides a unique opportunity for selected individuals to become an integral part of the Department's future leadership and management teams.

This is a 2-year program that seeks outstanding individuals interested in a career in the analysis and management of HHS policies and programs.

The Program targets 5 specific career paths: (1) Scientific (2) Public Health (3) Social Sciences (4) Information Technology and (5) Administration. These designations assist in ensuring that quality candidates are available to fill our most critical skills areas. Through a series of rotational assignments within the chosen career path and exposure to the department's operating divisions, developmental activities, individual assessments, and mentoring relationships, the program has yielded a group of well-rounded professionals prepared to take on future leadership roles.

They receive an intensive 5-day orientation to the Department with presentations and discussions with senior leadership, usually Operating Division Heads, and they visit each Operating Division and several outside agencies, e.g., OPM, OMB, Congress and the Senate in an effort to introduce them not only to HHS, but to other key stakeholders.

The first year of the Program is spent on 60-90 day rotational assignments throughout the Department. Participants seek their own rotational opportunities, based on their interests and backgrounds, and the whole Department is available to them. Each rotation has specific objectives and deliverables that must be met and each assignment is evaluated with feedback to the emerging leader. The focus during rotations is on completing the objectives, understanding the importance of the organizational segment in relation to the mission of the Department, assessing the office environment and structure and learning as much as possible in a short period of time.

Emerging Leaders receive 5 weeks of leadership training in the first year centered on the 5 Executive Core Qualifications as defined by OPM, i.e., Leading People, Leading Change, Results Driven, Business Acumen, and Building Coalitions/Communication. During these 5 weeks of training they are all brought together as a group to continue to foster that bond that will become a valuable resource for them as their careers progress. This training is done in a classroom setting with many interactive activities to help them develop those additional intangible skills that they will need. They also work on a group project that is identified and championed by an HHS Executive. The projects are real time issues that meet critical needs and require solutions that can be implemented with highly visible results. They are assigned to groups with representation from all career paths, geographic locations, and work on projects such as Obesity & Children, Bioterrorism, Laboratory Network Responses, etc., and all are expected to contribute to the project and to the end goal. By having this diverse group, the members of the team are able to see how each of their own specialties contribute to the success of the project and why HHS needs diverse workgroups to solve problems.

Each Emerging Leader chooses a senior analyst, manager or executive as a mentor soon after entering on duty to help them navigate and understand the Federal government and serve as a general source of information.

If the Emerging Leader successfully completes all program requirements, they are promoted at the end of the first year and return to their home agency for the second year of the program where they work on assigned projects and programs, receive technical training for their target position and continue to receive leadership training with the rest of the Emerging Leaders group. At the end of the second year if they have successfully completed all aspects of the Program they are promoted to the GS-12 level and converted from a temporary to a permanent position.

The program is extremely successful averaging over 2,000 applicants each year. We are requested to visit schools nation wide to talk about the program and it's benefits and we host an annual career fair at HHS Headquarters that typically attracts over 900 college students for a one-day event. The Emerging Leaders Program is now a benchmark program within the Federal government and is being modeled in other agencies. In a three-year period, more than 200 young people have been selected to participate in the program.

We established the program using the Federal Career Intern authority issued by executive order in 2000. This hiring flexibility has been instrumental in the program design, recruitment and selection process because it provides a direct hire flexibility that enables us to recruit directly at colleges and universities. We participate in over 30 career fairs each year, nation wide. Our most recent class has 86 Emerging Leaders and all of them masters and terminal degrees.

The student loan repayment authority has not been used as a recruitment incentive as we have not found it necessary to attract quality candidates. The emerging leaders' home agencies can offer student loan repayments as a retention incentive, if it becomes necessary. Last month, July, we graduated our first class of emerging leaders. The class began with 62 participants and 55 graduated! Five of those who did not graduate left to pursue higher education opportunities.

The Program is coordinated with the Presidential Management Fellows Program in that both groups have the opportunity to interact and network. They work on various projects together normally within their home agencies. Many of our operating divisions coordinate seminars, meetings, brown bag lunches and other activities with both groups. In fiscal year 05, we will create an Alumni Association that will include graduates of the Emerging Leaders Program, Presidential Management Fellows Program, Health Resources and Services Administration (HRSA) Scholars Program and other "intern-type" programs around the Department. Some of the primary purposes of the Association are to formalize networking opportunities, create integrated training experiences and to continually hone leadership skills. We expect all of these groups to provide the future

leadership of HHS and find it important that they become familiar with each other and learn to count on each other as resources.

Your letter also requested that we address the following questions from Senator Daniel K. Akaka:

1. **According to a March 25, 2004 article in the Washington Post, the National Institutes of Health (NIH) used it's special consultant authority under 42 USC §209(f) to pay directors and chiefs of the 27 NIH institutes and centers amounts ranging from $142,500 to $293,750. Was this authority used to hire any short-term special consultants rather than long-term directors? Do the provisions of title 5 of the United States Code governing the employment of experts and consultants apply to the special consultant authority of NIH?**

   NIH uses Title 42 USC §209(f) to hire both short-term consultants and longer-term directors. The need is determined of course based on the extent of the need and the skills required for the project or activity involved.

   Also, the provisions of Title 5 do not apply to the appointment of experts and consultants appointed at NIH when Title 42 is the appointing authority. In fact, Title 42 specifically states that such appointments may be made without regard to the civil-service laws, i.e., Title 5 USC.

2. **What activities of the Office of Personnel Management (OPM) do you find the most helpful in managing your human capital? What activities or programs do you recommend OPM initiate to help you in this area?**

   The Office of Personnel Management's development of the Human Capital Assessment and Accountability Framework has been helpful in that it guides agencies toward achieving high Standards in human capital management. The e-Government initiatives such as e-Recruit, e-Payroll, and development of electronic personnel folders (e-OPF) all contribute toward improved Human Capital management. OPM's continued leadership in these initiatives will benefit HHS as well as other Federal agencies.

   OPM should continue its efforts to inform agencies of new hiring flexibilities as they did recently by providing five training sessions for human resources professionals, government wide. These type efforts contribute substantially to the ability of Federal agencies to manage human capital.

RESPONSES TO FOLLOW-UP QUESTIONS FROM MS. SIMMS

Responses to Questions
from U.S. Senate
Committee on Governmental Affairs
Subcommittee on Oversight of Government Management, the
Federal Workforce and the District of Columbia

Questions from Senator Voinivich:

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

A Absolutely. In my view, the role of the Chief Human Capital Officers' Council (CHCO Council) is to advise OPM and OMB, as well as other key stakeholders and stakeholder groups, on issues of importance to human capital management in the Federal Government. I can see the CHCO Council providing input on creating a strategy for upgrading the skills of Federal HR professionals, as well as providing direction and advice on the specifics of implementing this strategy.

2. Significant reforms to the federal civil service were enacted by Congress as part of the Homeland Security Act. What has been your experience with the CHCO Council's efforts to implement these flexibilities?

A I attended every CHCO Council meeting, save one, as well as the CHCO Retreat in 2003, and all CHCO Academy meetings. My observation is that these meetings are a good source of information on issues facing CHCOs and often provide details on the substance of pending policy within OPM. It is rare that the Council is asked to assist in implementing these flexibilities. I do not serve on the Executive Committee and I understand that this group, on the whole, has exercised more influence than the Council.

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

A We support OPM's recommendation.

Questions from Senator Akaka:

1. The Office of Personnel Management (OPM) has granted DOJ authority to offer buyouts or early retirement in several different divisions of the Department. Please describe how the authority was used, how employees and the unions participated in the process, and what flexibilities you used to recruit individuals possessing the needed skills after the reorganization took place?

A During the past several months, OPM granted Voluntary Early Retirement Authority (VERA) requests for eight components and Voluntary Separation Incentive Payments (VSIP) authority for three of these. When the Department notifies components that they have been given the authority, we provide specific instructions on how the authority should be used, including a reminder of the need to consult with employee organizations on implementing the authorities. We recently reported to OPM that, during the first three quarters of FY 2004, five individuals accepted a VERA and 21 individuals received a VSIP. The majority of the components chose the last quarter of 2004 to offer their employees VERAs and/or VSIPs.

The authorities for VERA and/or VSIPs have been granted through September 30, 2005, for the majority of the approved components. Most components have issued the window of opportunity for these authorities for the fourth quarter of FY 2004, with the expectation that employees will be separated by September 30, 2004; we will receive reports on numbers of employees who are separated or retired, using these authorities, in November 2004. Since most components are in the earliest stages of deploying the authority, we are unable to report on component efforts to backfill vacated positions with appropriate skills. We would be pleased to respond to this question with more detail as components go through this process and we garner additional information. We expect to have more information by the close of the second quarter, FY 2005.

The following components have been granted both VERA and VSIP authority:

Bureau of Prisons (BOP) (May 14, 2004 to September 30, 2005) whose window of opportunity is June 15 through July 15, 2004, with a 60-day separation date. All BOP employees who accepted the VERA and/or VSIP must have separated by September 17, 2004.

Executive Office for United States Attorneys (EOUSA) (April 15, 2004, to October 31, 2004). EOUSA's window of opportunity was August 17 through August 31, 2004, for VERA and VSIP.

Office of Justice Programs (OJP) (October 14, 2003, to September 30, 2006). OJP's first window of opportunity was December 1-29, 2003. The second window was May 3-14, 2004.

The following components have been granted VERA authority:

Civil Rights Division (June 18, 2004 to September 30, 2005). Its window of opportunity is June 19, 2004 through August 30, 2004. There is a potential for a second window during FY 2005 depending upon funding shortfalls.

Executive Office for Immigration Review (EOIR) (June 3, 2004, to September 30, 2005). EOIR's window of opportunity is June 3, 2004 to September 30, 2005.

Criminal Division (June 17, 2004, to September 30, 2005). Its window of opportunity is September 1 - 30, 2004. There is a potential for a second window of opportunity during FY 2005.

Justice Management Division (JMD) (May 12, 2004, to March 31, 2005). JMD's window of opportunity was July 1 - 30, 2004, with individuals retiring by September 30, 2004. There is a potential for another window during FY 2005 depending upon funding shortfalls and outsourcing review results.

INTERPOL (July 2, 2004, to September 30, 2004). INTERPOL's window for VERA was July 9, 2004, through August 20, 2004. Employees were expected to separate by September 3, 2004.

2. What activities of OPM do you find the most helpful in managing your human capital? What activities or programs do you recommend OPM initiate to help you in this area?

A It is evident that OPM is interested in helping us manage our human capital more effectively and efficiently. We are awaiting the results of an oversight review that will help ensure we are adhering to important merit systems principles throughout the many locations within the Department. We also find several of the symposia conducted by OPM to be quite helpful. These events are welcomed and appreciated. In general, we would be interested in having a more consultative role in OPM's policy-making process prior to finalization. The recent 45-day Hiring Model and the regulations pertaining to SES pay and performance systems were issued with little or no agency/CHCO input. In our view, agency perspective can be very beneficial in crafting government-wide policies to meet their intended goals and ensure that they do not result in unintended consequences.

Questions from Senator Lautenberg:

1. Why does the Department of Justice (DOJ) have a red rating from OMB for the overall status of its human capital management program? What is DOJ doing to improve this rating?

A First, I'm pleased to note that the Department has maintained a "Green" Progress score for seven of the last eight quarters. However, with respect to the Status score, we have encountered difficulties meeting OPM's expectations for the performance management requirements. Rightsizing a Department the size of Justice, is likened to turning the Titanic before it hit the iceberg, a situation that similar-sized agencies are also facing.

Beginning in January 2003, we began revamping our performance management system. Although we had a Departmental performance management policy in place, its breadth enabled components tremendous flexibility in developing their individual systems.

Working with our components, we have significantly revised the department's policy, and have had each component put in place new agency-level plans for their GS employees. This change now includes the FBI, which previously had operated outside of the Department's overall system. We have also completely revamped the SES performance management system.

Because this process takes time to do correctly, we are now finding ourselves at the point where we can put in place individual performance work plans, the final requirement for obtaining a "yellow" status. At the direction of the Attorney General, performance work plans for SES members and managers are now in place. In addition, we have created a new SES performance and compensation plan and we will soon seek certification by OPM and OMB. It is our understanding that this action will enable us to achieve a Yellow status score on the Scorecard, an accomplishment we have been seeking diligently for many months.

RESPONSES TO FOLLOW-UP QUESTIONS FROM MS. NOVAK

Responses to written questions submitted by Chrm. Voinovich resulting from the July 20, 2004, hearing at which Ms. Vicki Novak testified on "Building the 21st Century Federal Workforce: Assessing Progress in Human Capital Management."

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

Answer: In the changed environment where human resources professionals serve as partners with senior leaders and managers in strategic workforce management, the Chief Human Capital Officers' Council could certainly serve as a catalyst to identify the new human resources competencies needed, along with related training and development strategies. In fact, the Council does have an initiative underway in this area. The Council could also advocate for building the new human resources capability government-wide to support agencies' missions, goals, and objectives.

Question: Significant reforms to the federal civil service were enacted by Congress as part of the *Homeland Security Act*. What has been your experience with the CHCO Council's efforts to help implement these flexibilities?

Answer: The Office of Personnel Management, rather than the CHCO Council itself, has been at the forefront in helping agencies implement the new flexibilities. OPM has conducted training, in the form of workshops and fora, on the new flexibilities in the Act and has actively guided and supported agencies in their use. The Council, however, can serve as another effective forum for sharing experiences and best practices.

Question: The workforce flexibilities granted to NASA included authority to offer higher education scholarships to students in exchange for their commitment to work at NASA post-graduation. This authority is similar to a proposal I have supported along with my colleagues Senators Voinovich and Durbin for the national security workforce. Could you provide the Committee with an update on the use of this flexibility and how you are structuring the program to recruit individuals with the needed skills?

Answer: NASA is on schedule to announce its Science and Technology Scholarship Program (STSP) in Fall 2004. We will solicit applications from primarily undergraduate students, representing geographically and demographically diverse student communities, majoring in the academic disciplines that are required to help NASA achieve its mission.

The initial intake number of students, number per academic discipline major, and the number of students accepted per academic year (Freshman, Sophomore, Junior, Senior) will align with NASA's short and long-term skill gap projections, as determined by our Strategic Human Capital Plan and our Competency Management System. We will continue to actively manage the STSP intake annually, making adjustments as dictated by the projected skill "pipeline" placement needs of NASA's workplace. STSP will not only provide participants with tuition funding support, but we also will require periodic, hands-on research internships for each participant. These research internships will provide the students with research experience at a NASA Center. This experience will be designed to familiarize the student with the NASA environment and staff, and facilitate future specific, need-based workforce placements.

Question: What activities of the OPM do you find the most helpful in managing your human capital? What activities do you recommend OPM initiate to help you in this area?

Answer: We have found the Office of Personnel Management to be extremely helpful in sharing best practices in the area of human capital management with all federal agencies and hosting fora with representatives from the various agencies to discuss emerging issues. They have also been instrumental in compiling and sharing inter-agency and government-wide workforce data and posting "Questions and Answers" on their website that provide helpful guidance and information on technical human capital management issues and programs. OPM's continued efforts to compile and share information, provide technical guidance, and host fora as described above – as well as increased partnering with federal agencies to develop new policies, programs and approaches to address the work force challenges of the 21st century – is most welcome.

Question: How did NASA work with its unions in developing a workforce plan? Has NASA done a survey of employee satisfaction with its human capital system?

Answer:

Union involvement in developing the NASA Workforce Plan

In anticipation of passage of the NASA Flexibility Act, a Legislation Implementation Team was formed in August 2003 to develop the Workforce Plan and the implementing policies and procedures for the specific provisions of the Act. We invited our Centers' Human Resources offices to nominate participants to the team and contacted the national offices of our two unions, the American Federation of Government Employees (AFGE) and the International Federation of Professional and Technical Engineers (IFPTE) to invite them to participate as well. (Since AFGE and IFPTE have national consultation rights with NASA, we must contact the designated national representative in such communications.)

IFPTE provided a representative to serve on this team. She was an active participant who added substantial value to the effort. When the larger Legislative Implementation Team broke into five subteams focused on different initiatives, the IFPTE representative chose to serve on the Workforce Plan subteam. In that regard, IFPTE had very close involvement with the development of the Workforce Plan. (Later, when the Change Management Subteam was formed, the IFPTE representative volunteered to serve on that subteam as well.)

AFGE did not provide a representative to the team. Nevertheless, throughout our process of developing the Workforce Plan and implementing policies, we continued to provide the AFGE national office with information on the team's activities and progress. We also provided them with the team's draft and final work products to afford them an opportunity to comment.

As the team worked on the Workforce Plan and policies, they also engaged the IFPTE and AFGE local units at the NASA Centers. For example, in the fall of 2003, the team held two video teleconferences targeted specifically to the Centers' local unions. The purpose of these video teleconferences was to discuss the latest versions of the draft Workforce Plan and policies and address any concerns or questions. The participation was excellent and led to further communications between the team and union officials over the next few months on issues related to the Act. In addition, our Center management officials and human resources specialists held briefings for their local unions during this process to keep them apprised of developments and share the team's draft work products with them.

After the team concluded these informal communications with the unions and other stakeholders regarding the Workforce Plan drafts, the final draft was provided to the national unions to provide them with an opportunity to formally comment on it. Their comments were given full and fair consideration in the final revision of the Plan submitted to the Office of Personnel Management for approval.

We were pleased to have productive, helpful, and active participation from union representatives in developing the Workforce Plan and policies. The collaboration was very positive and strengthened the working relationship between the NASA human resources community and the NASA unions.

Survey of employee satisfaction with NASA's human capital system

There have been several broad reviews and employee surveys conducted over the past few years that address workforce issues within the Agency.

In 2001, NASA established a National Recruitment Initiative (NRI) to develop Agency-wide recruitment strategies to attract, hire, and retain a highly technical science and engineering workforce. As part of this effort, the NRI study team held focus groups and interviews at seven NASA Centers with directors of science and engineering, human resources directors, recruiters, equal opportunity staff, university affairs officers, hiring managers, and new/recent hires. The participants provided valuable information related to the factors that are important in attracting and retaining employees.

In 2002, the Office of Personnel Management conducted a Federal Human Capital Survey. More than 100,000 responses were received from Federal employees in 24 agencies. This survey was a tool to measure employees' perceptions of whether, and to what extent, conditions that characterize successful organizations are present in their agencies. The NASA employee survey results were provided to the Agency (and shared with NASA Centers and Enterprise Offices) and used to identify areas where additional focus is needed to improve human capital management

In late 2003, NASA contracted with the Corporate Executive Board's Corporate Leadership Council Solutions to administer an Employee Preference Survey. This was administered to gather employee insights about workforce recruitment and retention efforts and career preferences of NASA employees. Findings from the survey are being used to develop action plans to enhance our human capital management strategies.

In the spring of 2004, a Mission Safety Climate and Culture Survey was administered within the Agency to provide a baseline measurement for culture elements that have been shown to be important to safety assurance and organizational excellence. This survey was conducted as part of a larger effort to help NASA better understand characteristics of the current organizational and safety climate and culture, diagnose aspects of the climate and culture that do not support effective adoption of changes identified by the Columbia Accident Investigation Board, and provide tools that can be used to change behaviors and norms in a way that reinforces NASA's commitment to safety and organizational excellence.

The information from these surveys, along with our monitoring of national trends in the labor market and education, has provided helpful information in developing and improving NASA's human capital management program.

In addition to the use of surveys, we encourage input on employee perspectives in other fora. For example, in July 2002, a team of employees began working to assess the feasibility of, and define the action needed to create, a more highly unified NASA organization. This effort, which came to be known as the One NASA initiative, was the outgrowth of a series of activities begun in 2000 with a class of the NASA Professional Development Program (the precursor to the current NASA Leadership Development Program) and later involving other development programs, such as Managing the Influence Process and the Senior Executive Service Candidate Development Program. The One NASA team set out to formulate a set of specific recommendations for organizational and culture change, emphasizing teamwork and collaboration across the Agency, to elevate NASA to a new level of effectiveness and performance. The One NASA effort resulted in a final set of recommendations and actions in 2003 that are now in various stages of implementation.

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