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September 2003

HUMAN CAPITAL

DHS Personnel System Design Effort Provides for Collaboration and Employee Participation

GAO-03-1099

September 2003

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Highlights

Highlights of GAO-03-1099, a report to congressional requesters

HUMAN CAPITAL

DHS Personnel System Design Effort Provides for Collaboration and Employee Participation

Why GAO Did This Study

The success of the transformation and implementation of the Department of Homeland Security (DHS) is based largely on the degree to which human capital management issues are addressed. Recognizing this, the legislation creating DHS provided it with significant flexibility to design a modern human capital management system.

Congressional requesters asked GAO to describe the process DHS has in place to design its human capital system and involve employees, and analyze the extent to which this process reflects elements of successful transformations.

What GAO Recommends

As the process to develop and implement a new human capital system at DHS moves forward, we recommend that the Secretary of DHS and Director of OPM ensure that the human capital management system is designed to accomplish the mission, objectives, and goals of the department. In addition, we are recommending that the Secretary ensure that the communication strategy used to support the human capital system maximizes opportunities for employee involvement.

DHS and OPM commented on a draft of this report and generally agreed with its content. The report was revised to reflect agency comments.

www.gao.gov/cgi-bin/getrpt?GAO-03-1099.

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.

What GAO Found

The effort to design a human capital management system for DHS generally reflects important elements of effective transformations.

- Leadership. One of the strengths of the effort to transform the culture of organizations going into DHS has been the on-going commitment of both DHS and Office of Personnel Management (OPM) leaders to stimulate and support the effort to design a human capital system.
- Strategic Goals. DHS is currently developing a strategic plan. Although DHS human resource leaders are included on the strategic planning team, it will not be complete until the end of September 2003. Consequently, DHS will need to ensure that the development of the human capital policy options is integrated with the accomplishment of DHS programmatic goals as defined in the forthcoming strategic plan. Such integration is important to ensure that the human capital system enables the department to acquire, develop, and retain the core competencies necessary for DHS to accomplish its programmatic goals.
- Key Principles. The DHS Secretary and OPM Director outlined four principles to serve as a critical framework for the human capital system. These principles appropriately identify the need to support the mission and employees of the department, protect basic civil service principles, and hold employees accountable for performance.
- Timeline. Agency officials established an ambitious 9- to 10-month timeline for completing the design process, aiming to issue final regulations in early 2004. Some DHS stakeholders we interviewed expressed concerns about the compressed schedule. Officials leading the design effort report the aggressive schedule is necessary to relieve employee anxiety and maximize the time available for implementation.
- Design Team. The design team includes staff from multiple organizational units within DHS, OPM, and the three major unions.
- Communication. DHS recently finalized a communication plan that provides a structured and planned approach to communicate with DHS stakeholders regarding the human capital system. Moving forward, DHS will need to provide adequate opportunities for feedback once the options are released.
- Employee Involvement. Employees are provided multiple opportunities to be included in the design process, including participation in the Core Design Team, the Town Hall meetings, the field team, the focus groups, and an e-mail mailbox for employee comments.

Experience has shown that in making major changes in the cultures of organizations, how it is done, when it is done, and the basis on which it is done can make all the difference in whether it is ultimately successful. The analysis of DHS's effort to design a human capital system can be particularly instructive in light of legislative requests for agency-specific human capital flexibilities at the Department of Defense and the National Aeronautics and Space Administration.

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Abbreviations

AFGE	American Federation of Government Employees
APHIS	Animal and Plant Health Inspection Service
CIA	Central Intelligence Agency
CPDF	Central Personnel Data File
DHS	Department of Homeland Security
DOD	Department of Defense
DOJ	Department of Justice
FACA	Federal Advisory Committee Act
FBI	Federal Bureau of Investigation
FEMA	Federal Emergency Management Agency
FLETC	Federal Law Enforcement Training Center
FTE	full-time equivalent
INS	Immigration and Naturalization Service
NAAE	National Association of Agricultural Employees
NASA	National Aeronautics and Space Administration
NSA	National Security Agency
NTEU	National Treasury Employees Union
OMB	Office of Management and Budget
OPM	Office of Personnel Management
TSA	Transportation Security Administration

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G A O
Accountability * Integrity * Reliability

United States General Accounting Office
Washington, D.C. 20548

September 30, 2003

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

The Honorable Jo Ann Davis
Chairwoman, Subcommittee on Civil Service and
Agency Organization
Committee on Government Reform
United States House of Representatives

The creation of the Department of Homeland Security (DHS) represents an historic moment for the federal government to fundamentally transform how the nation will protect itself from terrorism. DHS now has an opportunity—and a responsibility—to transform and integrate a disparate group of agencies with multiple missions, values, and cultures into a strong and effective cabinet department. Together with this unique opportunity, however, also comes significant risk to the nation that could occur if this transformation is not implemented successfully. In fact, we designated this implementation and transformation as high risk in January 2003.[1]

We convened a forum in September 2002 to identify useful practices and lessons learned from major public and private transformations that DHS and other federal agencies could use to inform transformation efforts.[2] While no two mergers or transformation efforts are exactly alike and the "best" approach depends on a variety of factors specific to each context, there was general agreement on a number of key practices. These practices include:

[1]U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Homeland Security*, GAO-03-102 (Washington, D.C.: January 2003).

[2]U.S. General Accounting Office, *Highlights of a GAO Forum: Mergers and Transformation: Lessons Learned for a Department of Homeland Security and Other Federal Agencies*, GAO-03-293SP (Washington, D.C.: Nov. 14, 2002).

1. **Ensure top leadership drives the transformation**. Leadership must set the direction, pace, and tone and provide a clear, consistent rationale that brings everyone together behind a single mission.

2. **Establish a coherent mission and integrated strategic goals to guide the transformation**. Together, these define the culture and serve as a vehicle for employees to unite and rally around.

3. **Focus on a key set of principles and priorities at the outset of the transformation**. A clear set of principles and priorities serves as a framework to help the organization create a new culture and drive employee behaviors.

4. **Set implementation goals and a timeline to build momentum and show progress from day one**. Goals and a timeline are essential because the transformation could take years to complete.

5. **Dedicate an implementation team to manage the transformation process**. A strong and stable team is important to ensure that the transformation receives the needed attention to be sustained and successful.

6. **Use the performance management system to define responsibility and assure accountability for change**. A "line of sight" shows how team, unit, and individual performance can contribute to overall organizational results.

7. **Establish a communication strategy to create shared expectations and report related progress**. The strategy must reach out to employees, customers, and stakeholders and engage them in a two-way exchange.

8. **Involve employees to obtain their ideas and gain their ownership for the transformation**. Employee involvement strengthens the process and allows them to share their experiences and shape policies.

9. **Build a world-class organization**. Building on a vision of improved performance, the organization adopts the most efficient, effective, and economical personnel, system, and process changes and continually seeks to implement best practices.

Building on the forum, we recently identified specific implementation steps for these key practices.[3] (See app. I). Many mergers do not live up to their potential. Research suggests that the failure to adequately address a wide variety of people and cultural issues is at the heart of unsuccessful mergers and transformations. Therefore, strategic human capital management must be at the center of a successful transformation effort. The legislation creating DHS provided it with significant flexibility to design a modern human capital management system.[4] Specifically, the department may deviate from requirements contained in Title 5 of the United States Code relating to performance appraisals, classification, pay rates and systems,[5] and adverse actions and appeals. However, the department may not deviate from other Title 5 provisions including the merit system principles, prohibited personnel practices, equal employment opportunity, civil service examination and selection, and pay administration.[6] In addition, for hiring employees, the department may take advantage of the governmentwide personnel reform measures contained in the Homeland Security Act of 2002, including using a category rating system when evaluating applicants for employment and selecting qualified applicants for positions using direct hiring procedures.[7] Regulations for the DHS human capital system are to be prescribed jointly by the Secretary of DHS and the Director of the Office of Personnel Management (OPM). The legislation also noted that it is the sense of the Congress that employees be involved in the creation of the new human capital system.

In light of the challenge to transform the organizations joining the department and establish a modern human capital management system, you asked that we undertake a series of human capital engagements to assist DHS in its implementation efforts. As agreed with your office, this is one of several reports we will issue that will track how DHS begins to make use of its new human capital authorities. Specifically, this report

[3]U.S. General Accounting Office, *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, GAO-03-669 (Washington, D.C.: July 2, 2003).

[4]Public Law 107-296, Nov. 25, 2002.

[5]The department may not however modify Senior Executive pay or fix employee pay in excess of the limitation on aggregate compensation payable under 5 U.S.C. 5307.

[6]Pay administration provisions include premium pay rules.

[7]Interim regulations implementing these authorities were issued by OPM in the *Federal Register* on June 13, 2003. 68 *Fed. Reg.* 35265.

(1) describes the process DHS has in place to design its human capital system and involve employees and (2) analyzes the extent to which this process reflects what we have found to be important elements of successful transformations.

To address our objectives, we reviewed documents relevant to DHS's transformation and personnel system design effort and applicable laws and regulations. These included the April 2003 *Human Resources Systems Design Team Resource Book*, the weekly DHS newsletter, OPM data on DHS employees and unions, the June 2003 Communications Plan, and others. We interviewed officials from DHS and OPM headquarters who are involved in the effort to design the new human capital system. Human resource leaders from the five largest components within DHS were also interviewed – the Transportation Security Administration (TSA), Federal Emergency Management Agency (FEMA), the organizations formerly known as the Immigration and Naturalization Service (INS) and the U.S. Customs Service, and the U.S. Coast Guard – to learn their impressions of the design process. Interviews with officials from the three largest employee unions at DHS – the American Federation of Government Employees (AFGE), the National Treasury Employees Union (NTEU), and the National Association of Agricultural Employees (NAAE) – provided additional insights. We then analyzed the information gathered in light of seven of the nine transformation practices. Practice 6 was excluded from the analysis because the effort to design a human capital system includes the development of a performance management system and Practice 9 was excluded because developing an effective human capital system is one of many efforts required to become a world-class organization. We conducted our work in accordance with generally accepted government auditing standards between March and September 2003.

The description and analysis of DHS's effort to design a strategic human capital management system can be particularly instructive in light of legislation that requests additional authority for human capital management at the Department of Defense (DOD) and the National Aeronautics and Space Administration (NASA). We have consistently supported the need for government transformation and the concept of modernizing federal human capital policies, as underscored in recent testimonies and our January 2003 report which described why we find that strategic human capital management remains a governmentwide high-risk

area.[8] This effort can also prove instructive for future human capital management and reorganization efforts within specific units of DHS as the new department is implemented and transformed over time into a cohesive organization.

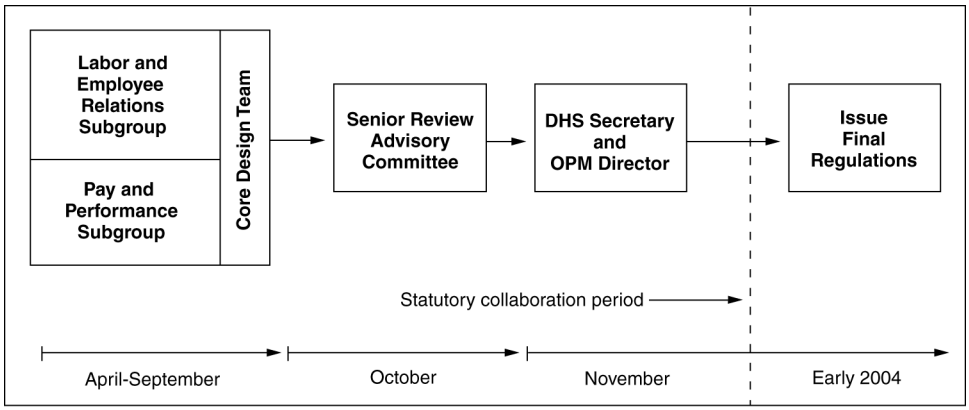
Importantly, while the design process used to develop the human capital system is significant, effective implementation of the system is similarly crucial to effective human capital management in the new department. In short, a successful design effort is essential to, but does not guarantee, effective implementation.

Results in Brief

DHS's and OPM's effort to design a new human capital system is collaborative and facilitates participation of employees from all levels of the department. The process is divided into three stages: research, outreach, and drafting of initial personnel system options; review of the options; and development of proposed regulations. First, the Core Design Team conducted research on human capital approaches, communicated with and gathered feedback from employees, and developed options. Second, the Senior Review Advisory Committee will review these options and forward its recommendations to the DHS Secretary and OPM Director. Third, the Secretary and Director will then propose draft regulations for the human capital system, engage in the statutory collaboration period, and issue final regulations by early 2004. The stages include employees from DHS and OPM, as well as representatives from the department's three largest unions. See figure 1.

[8]U.S. General Accounting Office, *Human Capital: Building on DOD's Reform Effort to Foster Governmentwide Improvements*, GAO-03-851T (Washington, D.C.: June 4, 2003); *High-Risk Series: Strategic Human Capital Management*, GAO-03-120 (Washington, D.C.: January 2003); and *Managing for Results: Using Strategic Human Capital Management to Drive Transformational Change*, GAO-02-940T (Washington, D.C.: July 15, 2002).

Figure 1: DHS Personnel System Design Process



Source: GAO.

This effort to design a human capital management system for DHS generally reflects what we have found to be important elements of effective transformations.

- Ensure top leadership drives the transformation. One of the strengths of the effort to transform the culture of organizations going into DHS has been the on-going commitment of both DHS and OPM leaders to stimulate and support the effort to design a human capital system.

- Establish a coherent mission and integrated strategic goals to guide the transformation. DHS is currently developing a strategic plan. Although DHS human resource leaders are included on the strategic planning team, the final plan will not be complete until late September 2003. Consequently, DHS will need to ensure that the development of the human capital policy options by the Core Design Team is integrated with the accomplishment of DHS programmatic goals as defined in the forthcoming strategic plan. Such integration is important to ensure that the human capital system enables the department to acquire, develop, and retain the core competencies necessary for DHS to accomplish its programmatic goals. Moving forward, it is essential that the Senior Review Advisory Committee, the Secretary, and the Director ensure that the new human capital system is aligned with the DHS strategic plan.

- Focus on a key set of principles and priorities at the outset of the transformation. The Secretary and Director outlined four principles

during the first design meeting in April that have served as a framework for the activities of the Core Design Team.[9] These principles appropriately identify the need to support the mission and employees of the department, protect basic civil service principles, and hold employees accountable for performance.

- Set implementation goals and a timeline to build momentum and show progress. Agency officials established an ambitious 9- to 10-month timeline for completing the design process, aiming to issue final regulations in early 2004. Some DHS component human resource directors and other stakeholders we interviewed expressed concerns about the compressed schedule. Officials leading the Core Design Team report the aggressive schedule is necessary to relieve employee anxiety and maximize the time available for implementation within the 5-year window outlined in the DHS legislation.

- Dedicate an implementation team to manage the transformation process. The membership of the design team includes participants from multiple organizational units within DHS, OPM, and the three major unions.

- Establish a communication strategy to create shared expectations and report related progress. DHS recently completed a noteworthy and substantive communication plan that provides a structured and planned approach to communicate with DHS stakeholders regarding the human capital system. The objectives of the plan are to: raise awareness, disseminate information, and promote a clear understanding of the new human capital system; manage stakeholder expectations and address their concerns; and provide opportunities for a two-way dialogue. Building on its current efforts, DHS will need to continue to provide adequate opportunities for feedback once the options are released, including providing an adequate level of detail on how the new system will impact employees.

- Involve employees to obtain their ideas and gain their ownership. Employees are provided with multiple opportunities to be included in the design process, including participation in the Core Design Team, the

[9]On July 25, 2003, the Core Design Team presented a set of five principles to the Senior Review Advisory Committee as a guide for developing the options to be presented in late September, building on the original four principles.

Town Hall meetings, the focus groups, the field team, and an e-mail mailbox for employee comments. Continued employee involvement is critical as options are identified, regulations are proposed, and the human capital system is implemented.

As the process to develop and implement a new human capital system at DHS moves forward, we are recommending that as the DHS strategic planning effort continues that the Secretary of DHS, in conjunction with the Director of OPM, ensure that the human capital management system is fully integrated with the accomplishment of the department's mission, objectives, and goals. We are also recommending that the Secretary of DHS build on the progress that has been made and ensure that the communication strategy used to support the human capital system maximizes opportunities for employee involvement through the completion of the design process, the release of the system options, and implementation, with special emphasis placed on seeking the feedback and buy-in of frontline employees in the field.

OPM provided written comments on a draft of this report, which are printed in appendix IV. DHS provided technical comments by e-mail.

DHS and OPM generally agreed with the contents of the report. However, both DHS and OPM expressed a concern that we misunderstood the role of the field team in the design process. Each described the role of the field team as more limited than our original understanding. While gathering additional information from DHS, NTEU, AFGE, and NAAE to clarify the role and activities of the field team, we learned that its role evolved over the course of the design effort, that it had no decision-making role in the design process, and that it was used as a recurring focus group. Accordingly, we changed the draft to reflect the field team's current role. DHS and OPM also provided a number of technical suggestions that have been incorporated where appropriate.

Background

The creation of DHS represents enormous leadership challenges, encompassing opportunities in multiple management areas. Sustained and inspired political and career leadership will be essential to successfully implementing the transformation of DHS. Success will also largely depend on its ability to attract and retain the right people; set the appropriate priorities for the department; and build effective partnerships with the appropriate public, private, and not-for-profit sector entities.

Mission and Organization of DHS

In establishing the new department, the Congress articulated a seven-point mission for DHS:

- Prevent terrorist attacks within the United States.
- Reduce the vulnerability of the United States to terrorism.
- Minimize the damage and assist in the recovery from terrorist attacks.
- Carry out all functions of entities transferred to the department, including by acting as a focal point regarding natural and man-made crises and emergency planning.
- Ensure that the functions of the agencies within the department that are not directly related to securing the homeland are not diminished or neglected.
- Ensure that the overall economic security of the United States is not diminished by efforts aimed at securing the homeland.
- Monitor connections between illegal drug trafficking and terrorism, coordinate efforts to sever such connections, and otherwise contribute to efforts to interdict illegal drug trafficking.

DHS is generally organized into four mission-related directorates: Border and Transportation Security, Emergency Preparedness and Response, Science and Technology, and Information Analysis and Infrastructure Protection.

- The Border and Transportation Security directorate consolidates the major border security and transportation operations under one roof, including the U.S. Customs Service, parts of the Immigration and Naturalization Service (INS), the Transportation Security Administration (TSA), the Federal Law Enforcement Training Center (FLETC), The Federal Protective Service, the Office for Domestic Preparedness from the Department of Justice (DOJ), and part of the Animal and Plant Health Inspection Service (APHIS).
- The Emergency Preparedness and Response directorate integrates domestic disaster preparedness training and government disaster response and includes the Federal Emergency Management Agency (FEMA), the Strategic National Stockpile and the National Disaster

Medical System, the Nuclear Incident Response Team, the Domestic Emergency Support Teams from DOJ, and the National Domestic Preparedness Office from the Federal Bureau of Investigation (FBI).

- The Science and Technology directorate coordinates scientific and technological advantages when securing the homeland and will include CBRN Countermeasures Programs, the Environmental Measurements Laboratory, the National Bio-Weapons Defense Analysis Center, and the Plum Island Animal Disease Center.

- The Information Analysis and Infrastructure Protection directorate accesses and analyzes intelligence, law enforcement data, and other information involving threats to homeland security and evaluating vulnerabilities from state and local agencies, the private sector, and federal agencies such as the Central Intelligence Agency (CIA), FBI, and the National Security Agency (NSA). It includes the Critical Infrastructure Assurance Office, the Federal Computer Incident Response Center, the National Communications System, the National Infrastructure Protection Center, and the energy security and assurance program activities of the Department of Energy.

In addition to the four mission-related directorates, the U.S. Secret Service and the U.S. Coast Guard remain intact as distinct entities in DHS; INS adjudications and benefits programs report directly to the Deputy Secretary as the Bureau of Citizenship and Immigration Services; and the Management Directorate is responsible for budget, human capital, and other general management issues.

DHS's People

DHS has approximately 155,000 civilian positions and 54,000 military positions in the U.S. Coast Guard, for a total of just over 209,000.[10] (See

[10]Based on positions transferred to DHS as of March 8, 2003, according to DHS, and GAO calculations using data from the Central Personnel Data File (CPDF) as of March 31, 2003. Additional positions were scheduled to transfer to the department after this date. Positions include full-time, part-time, and vacant, and do not represent full-time equivalent (FTE) employment or the total number of employees on board. The DHS-provided data are based on determination orders, but one DHS official acknowledged that the data were compiled differently by the various components. Furthermore, these data are preliminary and are expected to be adjusted based on continuing negotiations between DHS and other federal agencies. DHS was authorized 144,901 civilian FTEs and 37,074 military FTEs in the fiscal year 2003 budget, according to DHS. As of March 31, 2003, DHS had 160,201 full- and part-time civilian employees on board, according to CPDF.

table 1.) Of the civilian employees, a vast majority transferred from seven organizations: TSA, INS, Customs, FEMA, the U.S. Coast Guard, the U.S. Secret Service, and APHIS. Of the civilian employees who transferred from these seven organizations, approximately 90 percent are stationed outside the Washington, D.C. metropolitan area. DHS employees work in over 300 metropolitan statistical areas.

Table 1: Positions Transferred to DHS as of March 8, 2003

Originating Department	Originating Agency	Positions Transferred[a]
Agriculture	Import and Entry Inspection[b]	2,655
Commerce	Critical Infrastructure Assurance Office	50
Defense	National Communications System	105
Department of Energy		101
Federal Emergency Management Agency		8,542
General Services Administration		1,713
Health and Human Services		91
Justice	Immigration and Naturalization Service	36,769
Justice	Other	385
Transportation	United States Coast Guard[c]	60,403
Transportation	Transportation Security Administration	68,859
Transportation	Other	40
Treasury	United States Customs Service	22,028
Treasury	United States Secret Service	6,251
Treasury	Federal Law Enforcement Training Center	922
Treasury	Other	191
Total		**209,105**

Source: DHS.

[a]This column reflects positions - full-time, part-time, and vacant - and does not represent FTE employment or the total number of employees on board.

[b]This represents a specific function from APHIS that was transferred to DHS.

[c]This represents both civilian and military U.S. Coast Guard positions.

These employees serve in positions ranging from inspectors, investigators, police, and intelligence to attorneys and administrative services. DHS

employees are compensated under multiple pay and benefits systems, are hired using varied authorities, and undergo performance appraisals with different rating scales and factors.

According to OPM, just over 49,000, or just under one-third, of DHS civilian employees are represented by unions. This includes 16 different unions divided into 75 separate bargaining units. The 3 unions representing the largest number of employees are AFGE, NTEU, and NAAE. AFGE represents almost 33,000 employees who were transferred from INS, the U.S. Coast Guard, FEMA, and others. NTEU represents over 12,000 employees who were transferred largely from Customs. NAAE represents just over 2,000 employees who were transferred from APHIS.

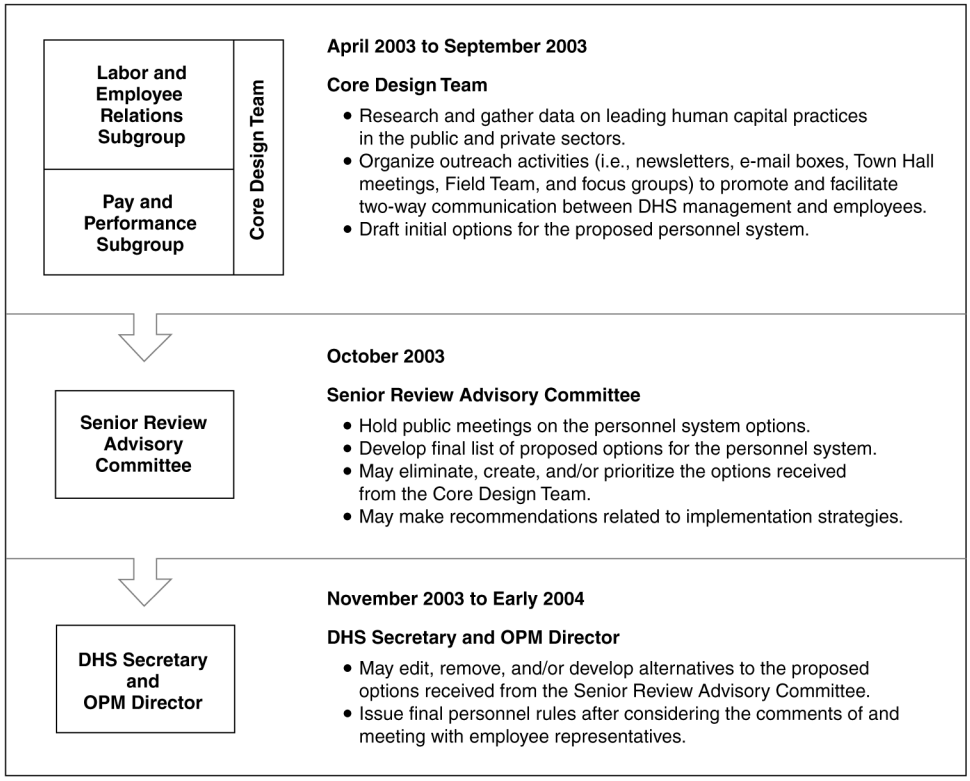
Design Process Provides for Collaboration

DHS's and OPM's effort to design a new human capital system is collaborative and facilitates participation of employees from all levels of the department. The process is divided into three stages: research, outreach, and drafting of initial personnel system options; review of the options; and development of proposed regulations. First, the Core Design Team conducted research on human capital approaches, communicated with and gathered feedback from employees, and developed options. Second, the Senior Review Advisory Committee will review these options and forward its recommendations to the DHS Secretary and OPM Director. Third, the Secretary and Director will then propose draft regulations for the human capital system, engage in the statutory collaboration period, and issue final regulations by early 2004. The stages include employees from DHS and OPM, as well as representatives from the department's three largest unions. This process is described in further detail in appendix II.

As figure 2 shows, the Core Design Team, the first stage of the design process, is responsible for research, outreach, and drafting initial options for the personnel system. This group is led by an equal number of DHS and OPM executives. Members of the Core Design Team, which includes employees from headquarters, the field, and unions, are full-time participants who work on one of two subgroups: (1) pay and performance or (2) labor and employee relations—reflecting the areas of Title 5 from

which DHS may deviate.[11] The work of the Core Design Team is to result in a broad range of options for the Senior Review Advisory Committee by late September 2003.

Figure 2: The Three Stages of the Design Process and Their Roles



Source: GAO.

The second stage of the design process is made of the Senior Review Advisory Committee. The committee's members include top executives from DHS, OPM, and the three major unions and they are advised by a team of external human capital experts. The committee is provided less than a month to review the system options and forward its iteration for the

[11]The Homeland Security Act of 2002 gives DHS authority to deviate from the requirements of: Chapter 43 – performance appraisal; Chapter 51 – classification; Chapter 53 – pay rates and systems (except certain provisions); Chapter 71 – labor-management and employee relations; Chapter 75 – adverse actions; and Chapter 77 – appeals.

Secretary and Director to consider.[12] The committee's time frame for completing this task is October 2003. During the committee's public deliberations, they may choose to eliminate, create, and/or prioritize the options, or may recommend implementation strategies.

Once the Secretary and Director receive the list of options from the Senior Review Advisory Committee, they may edit, remove, or develop alternatives to the proposed options as the third stage of the design process. They expect to announce the proposed regulations in November 2003, which will trigger the statutory collaboration process so final regulations can be issued in early 2004. As called for in the legislation, employee representatives have 30 calendar days to comment and make recommendations. The Secretary and Director are then to follow the provisions of the statutory reconciliation process for no less than 30 days.[13]

DHS and OPM Leadership Stimulates and Supports the Human Capital Transformation

DHS and OPM leaders have consistently underscored their personal commitment to the design process and speak openly in support of it. When the DHS legislation was under consideration, we testified that the single most important element of successful reorganizations is the sustained commitment of top leaders.[14] In our report that describes the key practices for successful mergers and transformations, we note that top leadership that is clearly and personally involved provides stability and an identifiable source for employees to rally around during tumultuous times. The role of top leaders is also to ensure that transformation efforts stay on course by setting priorities, focusing on critical issues, and demonstrating a commitment to change.

[12]An informal "planning committee," or small working group of DHS, OPM, and union senior executives was assembled to provide staff support, highlight issues for discussion during public meetings, and potentially to set the meeting agendas for the Senior Review Advisory Committee.

[13]Section 841 of the Homeland Security Act establishes a process for collaboration with employee representatives to provide notice of the proposed human resources management system, the opportunity to submit comments, and consultation over the recommendations made.

[14]U.S. General Accounting Office, *Homeland Security: Proposal for Cabinet Agency Has Merit, But Implementation Will be Pivotal to Success*, GAO-02-886T (Washington, D.C.: June 25, 2002).

DHS and OPM leaders are fulfilling these critical roles. For example, the DHS Under Secretary for Management and OPM's Senior Advisor for Homeland Security cochair the Senior Review Advisory Committee. Other committee members are officials in key leadership positions at both OPM and DHS and the presidents of the three major unions.

Senior officials from DHS, OPM, and DHS's three largest unions are directly involved in the workings of the Core Design Team. Top leaders of DHS and OPM addressed employees at the Town Hall meetings, expressing their support for the transformation, and solicited feedback from those employees. Specific examples include the Under Secretary for Management writing to DHS employees in April and May 2003 to express her support of the design process and participating in a Town Hall meeting. Additionally, the Under Secretary for Border and Transportation Security participated in several Town Hall meetings to express his on-going support of the design process and to respond to questions from DHS employees. The Under Secretary for Emergency Preparedness and Response and the Commandant of the U.S. Coast Guard also participated in Town Hall meetings. At these meetings, union leaders have stood next to the agency leadership to express their support for the process, according to agency officials. Similarly, OPM's Associate Director for Strategic Human Resources Policy and OPM's Senior Advisor for Homeland Security also addressed DHS employees at Town Hall meetings, and responded to their questions.

DHS Personnel System will Need To Be Integrated with Mission and Program Goals

DHS will need to ensure that the development of the human capital policy options by the Core Design Team is integrated with the accomplishment of DHS programmatic goals as defined in the forthcoming strategic plan. Agency officials indicate that it is their intention that the personnel system design will be consistent with the strategic plan. We have reported, and the President's Management Agenda reiterates, that leading organizations develop their workforce approaches as part of a strategic human capital plan as strategies for accomplishing their mission and programmatic goals. In light of this, we previously stated that the success of the DHS transformation requires the department to link its human capital strategy with its homeland security strategy.[15]

[15]GAO-03-102; and U.S. General Accounting Office, *Homeland Security: Management Challenges Facing Federal Leadership*, GAO-03-260 (Washington, D.C.: Dec. 20, 2002).

DHS is currently developing a strategic plan. This effort began in mid-June and is expected to be completed by the end of September 2003 – a target set by the Office of Management and Budget (OMB). As explained previously, the Core Design Team began its work in late April 2003 and expected to report its proposed options in late September 2003. According to a DHS official leading the strategic planning effort, human capital officials are engaged in drafting the strategic plan. DHS human capital officials confirmed that they have reviewed drafts of the strategic plan.

Moving forward, it is critical that the Senior Review Advisory Committee, the Secretary, and the Director make the link between the new human capital system and the accomplishment of DHS's goals as outlined in the DHS strategic plan. Once a strategic plan is in place, DHS can then develop a strategic human capital plan that, in part, identifies core competencies for staff as a tool for attracting, developing, and rewarding contributions to mission accomplishment. For example, these competencies will be critical to creating a performance management system – a key task of the Core Design Team - that aligns daily operations with organizational goals and creates a "line of sight" and shows how team, unit, and individual performance can contribute to organizational results. We recommended that DHS, in conjunction with OPM and OMB, create an effective performance management system in December 2002.[16] Furthermore, if DHS decides to design and implement a pay-for-performance system, a set of strategic goals and validated competencies will be required so that DHS can identify the outcomes and results that employees are to be rewarded for accomplishing.

Process Steered by Guiding Principles

The Secretary and Director outlined four principles to serve as a framework for the Core Design Team during their first meeting in April:

- The system has to support both the mission and the people charged with implementing the mission.
- Design Team members must leave preconceived notions at the door. They have an opportunity and responsibility to create a 21st century personnel system that is fair, performance based, and flexible.

[16]GAO-03-260. We recently outlined key practices for effective performance management systems in *Results-Oriented Cultures: Creating a Clear Linkage Between Individual Performance and Organizational Success*, GAO-03-488 (Washington, D.C.: Mar. 14, 2003).

- DHS must preserve and protect basic civil service principles.

- DHS must hold people at all levels accountable for performance. The agency will link individual performance to organizational goals, with the ability to identify and reward exceptional service and deal with chronic poor performance. DHS can be a department that stands as a model of excellence.

These principles can serve as core values for human capital management at DHS – values that define the attributes that are intrinsically important to what the new organization does and how it will do it. Furthermore, they represent the institutional beliefs and boundaries that are essential to building a new culture for the organization. Finally, they appropriately identify the need to support the mission and employees of the department, protect basic civil service principles, and hold employees accountable for performance.

On July 25, 2003, the Core Design Team presented a set of five principles to the Senior Review Advisory Committee as a guide for developing the options to be presented in late September. These principles were drafted by the Core Design Team and reviewed by the field team, using the original four principles proposed by the Secretary and Director as a guide. The five principles are to ensure that the options developed are (1) mission centered, (2) performance focused, (3) contemporary and excellent, (4) generate respect and trust, and (5) based on merit system principles and fairness.

Consistent with the principles outlined by the Secretary and Director and those presented to the Senior Review Advisory Committee, our interviews with the human resource leaders in the five largest DHS components identified two areas that they would like the new human capital system to address: the new DHS personnel system should provide for competitive, performance-based pay and should give managers the ability to quickly hire the right people with the skills the agency needs. First, individuals we interviewed hoped that the new system would address their concerns about the disparities in pay rates across DHS and expressed an interest in implementing performance-based pay, linked to the accomplishment of

DHS's mission, such that employees are more accountable.[17] Two indicated that they would like the Core Design Team to propose legislation to address the differences in premium pay that currently exist. Second, and beyond the immediate task of the Core Design Team, there was an overwhelming interest in simplifying the hiring process.[18] Officials in one component expressed their discontent with the amount of time between when a position is announced and when it is actually filled. One executive expressed an interest in more flexibility in hiring because the perception is that the current hiring process is only understandable to those already in the federal government.[19]

Ambitious Timeline Established

DHS and OPM established a 9- to 10-month timeline for completing the design process with the expectation that the final regulations will be issued in early 2004. Agency officials have publicized this timeline at Town Hall meetings across the country. Our reports on the successful practices of mergers and transformations have noted that the establishment of a timeline with specific milestones allows stakeholders to track the organization's progress towards its goals. Publicizing the timeline and meeting its milestones can illustrate building momentum and demonstrate that real progress is being made.

The design process officially began in early April 2003 when the Core Design Team convened for a 2-week leadership conference to learn about the various human capital management systems within the component agencies as well as those in other federal agencies and private firms. The Core Design Team began its research full time in late April. This team is expected to present its broad range of options to the Senior Review

[17]We have recently reported on leading practices in performance management and performance-based pay. For example, see 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); and GAO-03-488.

[18]As stated previously, the department may not deviate from the Title 5 provisions regarding civil service examination and selection procedures. However, DHS has the opportunity to address some of its hiring concerns through governmentwide human capital reform provisions in the Homeland Security Act of 2002, which allow for category-based rating and selection procedures and the ability to use direct-hire procedures.

[19]We have recently reported on major challenges in the federal hiring process. For more information, see U.S. General Accounting Office, *Human Capital: Opportunities to Improve Executive Agencies' Hiring Processes*, GAO-03-450 (Washington, D.C.: May 30, 2003).

Advisory Committee in late September 2003. The Senior Review Advisory Committee is allotted less than a month to develop its set of options in October 2003. The Secretary and Director will then select the options that will be submitted as officially proposed regulations available for comment. They expect to announce the proposed regulations in November 2003, which will trigger the statutory collaboration process so final regulations can be issued in early 2004.

Although the establishment of a clear timeline is positive, a majority of DHS stakeholders we interviewed expressed concerns about its compressed schedule. There is some understanding that the timeline reflects an effort to take into account the final regulations in preparing the fiscal year 2005 budget that is submitted to the Congress in early 2004. However, a number of human resource directors said the "self-imposed, short" timeline would pose significant challenges for the Design Team. One director commented that the timeline was "ambitious" considering the amount of information that needs to be collected and analyzed. Most directors agreed that the lack of sufficient time to perform these tasks could prevent the Design Team from completing its work or cause it to propose options that had not been thoroughly researched. Furthermore, another stakeholder suggested that the timeline appears to allocate too much time to the development of options and not enough time to the consideration of which options to adopt. On the other hand, DHS and OPM leaders of the design effort agree that the timeline is aggressive, but said that a shorter time frame will serve to minimize employee anxiety. In addition, they said a tight design time frame is needed to provide adequate time for implementation, evaluation, and modification within the 5-year statutory window available for establishing the new system.

While it is appropriate to develop and integrate the human capital systems within the department in a quick and seamless manner so that the department can begin to function as a cohesive entity, moving too quickly or prematurely can significantly raise the risk of doing it wrong. Having an ambitious timeline is reasonable only insofar as it does not impact the quality of the human capital system that is created.

Design Participants Represent a Mix of DHS and OPM Employees

Overall, the members of the Core Design Team represent multiple organizational components and the three major unions. The composition of the team is important because of the visual sign it communicates regarding which components are dominant and subordinate or whether the new organization is a "merger of equals." It also helps employees see that they are being represented and that their views are being considered in the decision-making process.

The 48 participants of the Core Design Team include personnel experts from OPM, DHS and its component agencies, line employees and managers from DHS headquarters and field offices; and professional staff from the three major unions.[20] Specifically, the Core Design Team is composed of 24 DHS employees, 16 employees from OPM, and 8 professional staff from the unions. This includes 27 staff members, 5 supervisors, 12 managers, and 3 executives.[21] Additionally, just over 60 percent of the members consider themselves human capital professionals,[22] and about two-thirds have experience outside headquarters.[23] (See figs. 3 and 4.) The majority of human resource officials we interviewed consider themselves to be adequately represented on the Core Design Team. Other characteristics of the team members are described in appendix III.

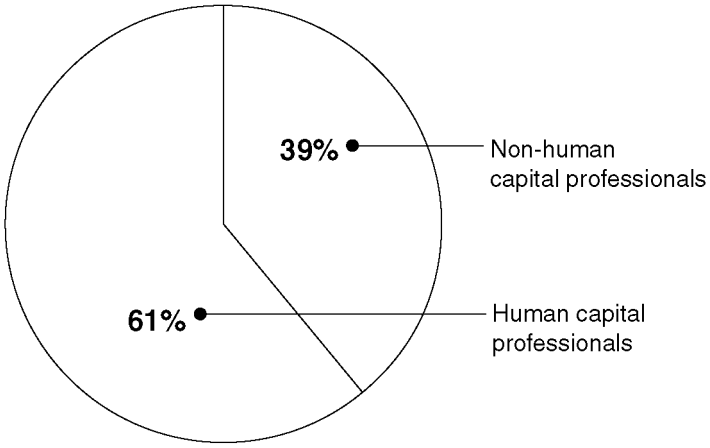
[20]This summarizes data for those members on board as of July 11, 2003. Since that date, membership has changed.

[21]Based on complete data for 47 participants.

[22]Based on complete data for 46 participants.

[23]Based on complete data for 39 participants.

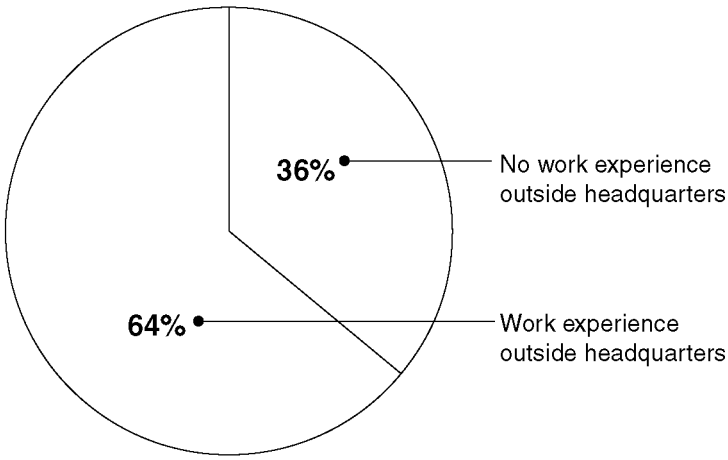
Figure 3: Core Design Team Members Who Describe Themselves as Human Capital Professionals[a]



Source: GAO.

[a]Based on complete data for 46 participants.

Figure 4: Percent of Core Design Team Members with Work Experience Outside Headquarters[a]



Source: GAO.

[a]Based on complete data for 39 participants.

According to DHS officials, DHS-specific slots on the Core Design Team were filled by individuals chosen by agency executives after determining the number of seats to be allocated to the different agency components. In

selecting team members, officials sought representation from across the organizational components of the department, individuals with field experience, and individuals with some expertise in human resources management. Race, gender, and occupational diversity were other factors considered when selecting participants. Additionally, NAAE selected one DHS employee to participate on the team and AFGE and NTEU each selected four professional staff members to participate.

Communications Plan Recently Completed

DHS recently completed a noteworthy communications strategy that provides a structured and planned approach to communicate with DHS stakeholders regarding the human capital system. The objectives of the plan are to: raise awareness, disseminate information, and promote a clear understanding of the new human capital system; manage stakeholder expectations and address their concerns; and provide opportunities for a two-way dialogue. We have recently reported that organizations undergoing a transformation should establish a communication strategy that ensures a consistent message is delivered and seeks to genuinely involve stakeholders in the process.

The communications plan, completed in June 2003, represents an important and substantive effort and contains four broad pieces that are consistent with the key practices we have identified as important to successful communication during transformations. First, the plan identifies internal and external stakeholders, the concerns of each stakeholder group, and the specific communication channels to be used to communicate to that stakeholder group. Second, the plan articulates the key messages to be delivered to each stakeholder group. Third, an action plan identifies the communication channel to be used, the timeline for its use, and the DHS and OPM staff responsible for implementation. Finally, the plan identifies the feedback mechanisms to be used to ensure there is a two-way dialogue.

Moving forward, DHS faces some challenges in successfully implementing its communications plan. First, in addition to the key messages articulated in the plan, DHS will need to provide information to clarify areas of confusion that were identified during our interviews. These include:

- the roles OPM, DHS, and the Senior Review Advisory Committee have in the process;

- the factors that will influence the Secretary and Director's final decisions on which options to propose;
- the role of the contractor in the design process;
- the likelihood of the Core Design Team drafting legislative proposals for areas DHS does not have authority to change (i.e., premium pay and hiring);
- the possibility of there being multiple personnel systems instead of one; and
- the implementation process.

A second challenge will be to ensure that preexisting communication channels within each departmental component deliver a message that is consistent in tone and content with the central communication strategy. We learned from three of the five components we interviewed that they use additional vehicles for providing and receiving information from employees. It may be appropriate to coordinate the messages sent to employees through these additional vehicles to minimize the perception that certain groups of employees are getting the "real" story.

Building on the current effort, DHS will need to provide adequate opportunities for feedback once the options are released, including providing an adequate level of detail on how the new system will impact employees. The feedback mechanisms identified in the communications plan focus on gathering employee feedback prior to the options being released. For example, two of the three feedback mechanisms outlined in the communications plan will be completed before the system options are publicized. DHS also needs to ensure effective communication to employees and stakeholders after the options are released. For example, DHS should consider describing to employees how the comments collected during the Town Hall meetings and focus groups informed the design process. Furthermore, once options are selected, DHS will be faced with communicating how the changes will impact specific jobs, rights and protections, and daily responsibilities. DHS may find it necessary to further tailor and customize the details of the new human capital system to meet the specific needs of employees.

Design Process Provides for Employee Involvement

Employee perspectives on the design of the DHS human capital system are sought through many mechanisms, including the Core Design Team with its members from multiple DHS components, Town Hall meetings, focus groups, the field team, and an e-mail mailbox for employee comments. This reflects the Congress' desire that employees be allowed to participate in a meaningful way in the creation of the new human capital system. Involving employees in planning helps to develop agency goals and objectives that incorporate insights about operations from a front-line perspective. It can also serve to increase employees' understanding and acceptance of organizational goals and improve motivation and morale.

The design process attempts to include employees by creating multiple opportunities for employees to provide feedback. While activity updates were provided in the DHS weekly newsletter and an e-mail mailbox for employees to submit their suggestions and comments was used, multiple Town Hall meetings and focus groups conducted between the end of May and the beginning of July 2003 were held in ten cities across the United States.[24] According to DHS and OPM officials, these cities were chosen to ensure adequate representation of major DHS components and geographic diversity. The goal of the events was to promote two-way communication between management and employees and to gather employee perspectives on the personnel practices that exist in their agency and any proposed changes they would like to see. Each meeting hosted up to 200 DHS employees from the surrounding cities.

At a typical Town Hall meeting, there was a general question and answer segment in which local employees had the opportunity to ask questions about the new system and express their overall concerns about DHS. If participants' questions could not be addressed during the meeting due to time constraints, they could write their questions on note cards and give them to cognizant DHS and OPM officials in attendance. After the meeting, the Core Design Team held a series of six focus group sessions in each city to obtain their input and suggestions for the new human resource system. In most cities, five of the six sessions were devoted to hear employees' views while the remaining session heard the views of supervisors and managers. Participants in the focus groups included both Town Hall

[24]The ten cities were Atlanta, Georgia; Detroit, Michigan; El Paso, Texas; Los Angeles, California; Miami, Florida; New York, New York; Norfolk, Virginia; Seattle, Washington; Washington, D.C.; and Baltimore, Maryland.

meeting attendees and those who were not able to attend the Town Hall session.

The degree to which the information gathered in these sessions was used to inform the design process is not yet evident. On one hand, the Town Hall meetings and focus groups gathered suggestions and concerns from large numbers of employees from multiple organizational components in geographically diverse locations. However, once options for the human capital system are proposed it will be particularly important that employees have adequate opportunities to make a worthwhile contribution.

In addition to the Town Hall meetings and focus groups, a field team made of 32 front-line DHS managers and staff, some of whom were selected by the major unions, was formed. During the design process, the field team provided insights about the department's human capital challenges from a front-line perspective. These insights were gathered during the three meetings of the group -- the field team was convened during the first week of the 2-week April leadership conference, 2 days in July to react to the subgroups' research, and for 2 days again in mid-September to react to the draft personnel system options before their submission to the Senior Review Advisory Committee in late September.

According to documents drafted before the April leadership conference, provided by AFGE and NAAE, it was originally expected that the field team would review the work of the Core Design Team on a "regular basis" and then be used to "test the options against workplace realities." One stakeholder added that it was his initial impression that the field team would serve as an "extension of the Core Design Team," empowered to provide input throughout the entire design process. However, over time, the expected role of the field team evolved to that of a recurring focus group that had no formal decision-making role in the design process. Likewise, as the role for the field team evolved, so did its membership – additional nonunionized DHS employees were added to the team. One DHS official acknowledged that the field team has not had a great deal of involvement in the process, and that the expected role of the team changed over time. Officials in NTEU, AFGE, and NAAE additionally confirmed that the role of the field team changed over time. One union president described the diminished role as a "missed opportunity." This official added that the lack of involvement and minimal communication with the Core Design Team has made it difficult for the field team to make a worthwhile contribution.

Conclusions

DHS and OPM have developed a process to design the new personnel system that is stimulated and supported by top leadership in both organizations and is generally inclusive, both in terms of the membership of the Core Design Team and multiple opportunities to provide input. The process is also guided by core principles and an ambitious timeline. Our research shows that these key attributes are indispensable to successful transformations. This design process provides a model for DHS to consider as it makes other important decisions about the implementation and transformation of the department.

Building on this progress, DHS will need to ensure that the development of the human capital policy options by the Core Design Team is integrated with the accomplishment of DHS programmatic goals as defined in the forthcoming strategic plan. Such a linkage can ensure that the new human capital approaches support and facilitate the accomplishment of DHS's goals and objectives – a fundamental principle of the human capital idea. It will also assist the Core Design Team in identifying human capital programs that support the DHS mission, including the development of a performance management system which creates a "line of sight" that shows how team, unit, and individual performance can contribute to overall organizational goals.

Additionally, DHS has acknowledged that work lies ahead for implementing better, more effective ways to communicate with and receive feedback from its employees. The development of the communications plan is an important and positive step. As DHS implements this plan it will need to provide information on areas of confusion that were identified during our interviews, including clarifying the role of DHS versus OPM in the system development. DHS will also need to ensure that a consistent message is communicated across DHS components. Finally, effective communication, characterized by a two-way dialogue, will be central to engaging employees in the remainder of the design process and ensuring it is transparent. Ultimately, an effective two-way communication strategy can ease implementation efforts. Once options for the human capital system are proposed it will be particularly important that employees have adequate opportunities to make a worthwhile contribution. Substantial involvement of field staff in the development and implementation of the new human capital system is essential given that over 90 percent of DHS civilian employees are in the field. Continued employee involvement will help to strengthen employee buy-in to the new human capital system. It is

important to consider and use the solicited employee feedback to make any appropriate changes once this feedback is received.

Recommendations for Executive Action

DHS has developed an effective process to begin the formation of its new human capital system. Moving forward, it is critical that the new human capital system be linked to the DHS strategic plan and that DHS continue to communicate with and involve its employees. Accordingly, we are recommending that once the strategic plan is completed the Secretary of DHS and the Director of OPM ensure that the options selected for the new human capital system support and facilitate the accomplishment of the department's strategic goals and objectives, as identified in the new strategic plan. In addition, we recommend that the Secretary of DHS clarify the role of the participants in the design effort and other areas of confusion identified by stakeholders during our interviews. Furthermore, consistent with the DHS communications plan, we recommend the Secretary ensure the message communicated across DHS components is consistent, and maximize opportunities for two-way communication and employee involvement through the completion of the design process, the release of the system options, and implementation, with special emphasis placed on seeking the feedback and buy-in of front-line employees in the field.

Agency Comments and Our Evaluation

OPM provided written comments on a draft of this report, which are printed in appendix IV. DHS provided technical comments by e-mail.

DHS and OPM generally agreed with the contents of the report. However, both DHS and OPM expressed a concern that we misunderstood the role of the field team in the design process. Each described the role of the field team as more limited than our original understanding. While gathering additional information from DHS, NTEU, AFGE, and NAAE to clarify the role and activities of the field team, we learned that its role evolved over the course of the design effort, that it had no decision-making role in the design process, and that it was used as a recurring focus group. Accordingly, we changed the draft to reflect the field team's current role. DHS and OPM also provided a number of technical suggestions that have been incorporated where appropriate.

We are sending copies of this report to the Chairman and Ranking Minority Member, Senate Committee on Governmental Affairs; the Chairman and Ranking Minority Member, House Committee on Government Reform; the Chairman and Ranking Minority Member, House Select Committee on Homeland Security; and other interested congressional parties. We will also send copies to the Secretary of the Department of Homeland Security and the Director of the Office of Personnel Management. Copies will be made available at no charge on the GAO Web site at http://www.gao.gov.

If you have any questions about this report, please contact me or Ed Stephenson on (202) 512-6806. Key contributors to this report are listed in appendix V.

J. Christopher Mihm
Director, Strategic Issues

Practices and Implementation Steps for Mergers and Transformation

Implementing large-scale change management initiatives, such as mergers and organizational transformations, is not a simple endeavor and requires the concentrated efforts of both leadership and employees to realize intended synergies and to accomplish new organizational goals. At the center of any serious change management initiative are people—people define the organization's culture, drive its performance, and embody its knowledge base. Experience shows that failure to adequately address—and often even consider—a wide variety of people and cultural issues is at the heart of unsuccessful mergers and transformations. Recognizing the "people" element in these initiatives and implementing strategies to help individuals maximize their full potential in the new organization, while simultaneously managing the risk of reduced productivity and effectiveness that often occurs as a result of the changes, is the key to a successful merger and transformation. Thus, mergers and transformations that incorporate strategic human capital management approaches will help to sustain agency efforts and improve the efficiency, effectiveness, and accountability of the federal government.

GAO convened a forum on September 24, 2002, to identify and discuss useful practices and lessons learned from major private and public sector organizational mergers, acquisitions, and transformations. This was done to help federal agencies implement successful cultural transformations, including DHS. The invited participants were a cross section of leaders who have had experience managing large-scale organizational mergers, acquisitions, and transformations, as well as academics and others who have studied these efforts. We reported the key practices participants identified that can serve as the basis for subsequent consideration as federal agencies seek to transform their cultures in response to governance challenges. Since convening the forum, our additional work has identified specific implementation steps for these practices.[1] (See fig. 5.)

[1] GAO-03-669.

Figure 5: Key Practices and Implementation Steps for Mergers and Transformations

PRACTICE	IMPLEMENTATION STEPS
Ensure top leadership drives the transformation.	• Define and articulate a succinct and compelling reason for change. • Balance continued delivery of services with merger and transformation activities.
Establish a coherent mission and integrated strategic goals to guide the transformation.	• Adopt leading practices for results-oriented strategic planning and reporting.
Focus on a key set of principles and priorities at the outset of the transformation.	• Embed core values in every aspect of theorganization to reinforce the new culture.
Set implementation goals and a timeline to build momentum and show progress from day one.	• Make public implementation goals and timeline. • Seek and monitor employee attitudes and take appropriate follow-up actions. • Identify cultural features of merging organizations to increase understanding of former work environments. • Attract and retain key talent. • Establish an organizationwide knowledge and skills inventory to exchange knowledge among merging organizations.
Dedicate an implementation team to manage the transformation process.	• Establish networks to support implementation team. • Select high-performing team members.
Use the performance management system to define the responsibility and assure accountability for change.	• Adopt leading practices to implement effective performance management systems with adequate safeguards.
Establish a communication strategy to create shared expectations and report related progress.	• Communicate early and often to build trust. • Ensure consistency of message. • Encourage two-way communication. • Provide information to meet specific needs of employees.
Involve employees to obtain their ideas and gain ownership for the transformation.	• Use employee teams. • Involve employees in planning and sharing performance information. • Incorporate employee feedback into new policies and procedures. • Delegate authority to appropriate organizational levels.
Build a world-class organization.	• Adopt leading practices to build a world-class organization.

Source: GAO.

Design Process

The process for creating a DHS human capital management system, jointly developed by DHS and OPM, calls for a design team made up of DHS and OPM employees and union representatives. The process is divided into three stages: research, outreach, and drafting of initial personnel system options; review of the options; and development of proposed regulations. Early 2004 is the expected date for the issuance of the personnel system's final regulations.

Core Design Team Is to Draft Options for the Personnel System

As the first stage of the design process, the Core Design Team engaged in efforts that serve as the basis for the work of the other two components. The 48 team participants included personnel experts from OPM, DHS, and its component agencies; line employees and managers from DHS headquarters and field offices; and professional staff from the three major unions.[1] Members were assigned to one of two subgroups focusing on (1) pay and performance or (2) labor and employee relations. The management consulting firm Booz Allen Hamilton assisted the teams in their efforts.

Pay and Performance and Labor and Employee Relations Subgroups

Each subgroup had two coleaders, one from OPM and one from DHS, to guide them. The subgroups performed their duties both collectively and separately. They convened jointly when there were common issues to discuss or to listen to presentations on human capital systems. For example, the teams heard presentations on the performance management and performance-based pay system at Internal Revenue Service (IRS); the human capital management systems at FBI and NSA; and the performance management, pay banding, and employee appeals process used at GAO.

The pay and performance subgroup focused its work on the three chapters of Title 5 covering performance appraisal, classification, and pay rates and systems. According to the subgroup's leaders, they identified 25 researchable areas and assigned small teams to explore each. Subgroup members were assigned to work on multiple teams. Research areas included the structure of pay ranges, methods for categorizing types of work, and different appraisal and rating methods, for example. When asked about the initial findings of their research, the leaders of the pay and

[1]As noted previously, this summarizes data for those members on board as of July 11, 2003. Since that date, membership has changed.

performance subgroup indicated they identified many pay systems to consider and evaluate.

The labor and employee relations subgroup focused on the three chapters of Title 5 covering labor-management relations, adverse actions, and appeals, to narrow its research. To gain a better understanding of these issues, the group invited agencies such as the Merit Systems Protection Board and the Federal Labor Relations Authority to make presentations. Areas that were researched included different levels of employee, union, and management rights; negotiation models; and how the success of labor relations programs, adverse action systems, and appeals systems is evaluated, for example. According to the subgroup leaders, they also researched both leading and failed practices in their subject areas. The group created interview guides to collect information in a consistent format. When asked about the initial findings of the research, the subgroup reported difficulty in identifying innovative labor relations models that can be applied to the federal system.

Contractor Assistance

To help facilitate its efforts in the design of the personnel system, DHS contracted with management-consulting firm Booz Allen Hamilton to provide support in project management, research, writing, staff support, and communications/publicity. In addition, it was responsible for planning the Town Hall meetings and facilitating the focus groups. According to the subgroup leaders, the contractor was expected to help design the format for the option papers but would not likely be involved in drafting the substance of the options.

Senior Review Advisory Committee Is to Develop Final Set of Options

The Senior Review Advisory Committee, the second stage of the design process, will receive the broad set of options from the Core Design Team. From this set of options the committee is expected to develop its final list of options for the Secretary and Director to consider.[2] Committee members are permitted to eliminate, create, or prioritize the options. In communicating its list of options to the Secretary and Director, it may present the strengths and weaknesses of each. This committee could potentially make recommendations related to implementation strategies.

[2]An informal "planning committee," or small working group of DHS, OPM, and union senior executives was assembled to provide staff support, highlight issues for discussion during public meetings, and potentially to set the meeting agendas for the Senior Review Advisory Committee.

Meetings of the Senior Review Advisory Committee will be governed by the Federal Advisory Committee Act,[3] which requires meetings to be open to the public.[4]

The Under Secretary for Management at DHS and the OPM Senior Advisor for Homeland Security cochair the Senior Review Advisory Committee. Committee members are officials in key leadership positions at both OPM and DHS. OPM representatives include the Senior Advisor for Homeland Security, the Associate Director for Strategic Human Resources Policy, the Associate Director for Human Capital Leadership and Merit System Accountability, and the Senior Policy Advisor to the Director and Chief Human Capital Officer. DHS representatives include the Commissioner of Customs and Border Protection, the Director of TSA, Director of the U.S. Secret Service, Director of the Bureau of Citizenship and Immigration Services, and the Director of Administration. Union representatives are the presidents from AFGE, NTEU, and NAAE. External experts with particular knowledge and experience in human capital management will serve as advisors.

DHS Secretary and OPM Director Are to Propose Regulations for the Personnel System

The Secretary of DHS and the OPM Director make up the final stage of the design process. Once they receive the list of options from the Senior Review Advisory Committee, they may edit, remove, or develop alternatives to the proposed options. The Secretary and the Director will then issue proposed personnel rules for the department. As called for in the DHS legislation, individuals affected by the proposed rules have 30 calendar days to comment and make recommendations. The Secretary and Director are then to follow the provisions of the statutory reconciliation process for no less than 30 days.[5]

[3]5 U.S.C. App. 2, section 10.

[4]Notice of the official establishment of the Senior Review Advisory Committee was posted in the *Federal Register* on June 11, 2003. 68 *Fed. Reg.* 34994.

[5]Section 841 of the Homeland Security Act establishes a process for collaboration with employee representatives to provide notice of the proposed human resources management system, the opportunity to submit comments, and consultation over the recommendations made.

Characteristics of Core Design Team Members

Characteristics of the 48 members of the Core Design Team are described in further detail in tables 2 through 6 below. The tables summarize data for those members on board as of July 11, 2003. Since that date, membership of the Core Design Team has changed.

Table 2: Design Team Membership

Agency	Legacy Unit/Union	Total
DHS	APHIS	1
	Coast Guard	2
	Customs	3
	FEMA	3
	FLETC	2
	INS	5
	Secret Service	2
	Treasury	3
	TSA	3
DHS Total		**24**
OPM		**16**
Union Professional Staff	AFGE	4
	NTEU	4
Total Union Professional Staff		**8**
Total Design Team		**48**

Source: GAO.

Table 3: Who Selected Design Team Member

Current Employer	Organization that Selected Member	Total
DHS	NAAE	1
	DHS	23
DHS Total		**24**
OPM		**16**
Union Professional Staff	AFGE	4
	NTEU	4
Total Union Professional Staff		**8**
Total Design Team		**48**

Source: GAO.

Table 4: Subgroup Membership

Subgroup	DHS	OPM	Union	Total
Pay and Performance	12	9	4	**25**
Labor and Employee Relations	11	6	4	**21**
No data	1	1	0	**2**
Total	**24**	**16**	**8**	**48**

Source: GAO.

Table 5: Human Capital Professional versus Other Experience

Organization	Human Capital Professional	Other Experience	No Data	Total
DHS	12	12	0	**24**
OPM	12	4	0	**16**
Union	4	2	2	**8**
Total	**28**	**18**	**2**	**48**

Source: GAO.

Table 6: Years of Experience of Design Team Members

Agency	Average Years of Federal Experience[a]	Average Years of Experience Outside Headquarters[b]
DHS	21.7	9.9
OPM	21.5	6.5
Union	12.8	4.0
Total	**21.0**	**8.4**

Source: GAO.

[a]Based on complete data for 41 participants.

[b]Based on complete data for 39 participants.

Comments from the Office of Personnel Management

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, DC 20415-1000

OFFICE OF THE DIRECTOR

September 16, 2003

The Honorable David M. Walker
Comptroller General
General Accounting Office
Washington, DC 20548

Dear Mr. Walker:

I welcome the opportunity to respond to GAO's draft report entitled DHS Personnel System Design Effort Provides for Collaboration and Employee Participation. As you can well imagine, I am very pleased that GAO chose to title its report as you have since it reflects the success I believe we have had in ensuring that the process established to develop a new human capital system for the Department of Homeland Security was both collaborative and inclusive. I also very much appreciate the fact that GAO acknowledges that one of the strengths of our design effort has been the on-going commitment of both DHS and OPM leaders to stimulate and support the design effort.

I am sure you are aware that OPM was in the forefront of the effort to assure that the legislation creating DHS provided for the opportunity to create a human capital system that is no longer mired in the long outdated practices of the past—one that is modern and responsive to the needs of today and one that provided to the managers of DHS the flexibility to manage more than 180,000 employees in a manner consistent with the unique mission requirements of the department. I believe it essential that we be able to pay and reward employees for their contributions and not primarily for their longevity and that we be able to create a labor–management program that focuses on collaboration and cooperation rather than on process. We also must have a disciplinary and appeals system that is fair to employees and management alike by allowing for swift and equitable resolution of performance and disciplinary problems rather than a system that typically leads to months and often years of unresolved, costly, and disruptive acrimony. The Homeland Security Act gives us the opportunity to address these concerns, and I am excited about the prospect of creating a system, along with Secretary Ridge, that will make the DHS human capital program a model for good management everywhere.

We have attached a few comments on the draft report that we believe will serve to clarify a few aspects of our effort. Several of our comments focus on portions of your report that relate to the Field Team. Frankly, we believe there is a basic misunderstanding on the part of GAO about the intended role of the Field Team, and several of our comments are specifically targeted to that misunderstanding. In essence, it is important to keep in mind that the members of the Field Team were never intended to be fully participating members of the design effort. Indeed, their role was always intended to be limited in nature and to only reflect our desire to get a field reaction to proposals that were developed by the core design team a couple times during the process and shortly before those proposals were to be submitted to the Senior Review Committee. The Field Team

CON 131-64-4
September 2001

was and is intended to serve as a "reality check" along the way—nothing more, nothing less—and that is how it has served.

We defer to the Department of Homeland Security to provide comments regarding the issues raised by GAO that pertain specifically to the department.

Once again, I appreciate the opportunity to comment on this draft report.

Sincerely,

Kay Coles James
Director

Attachment

GAO Contacts and Staff Acknowledgments

GAO Contacts

J. Christopher Mihm or Edward Stephenson, (202) 512-6806

Acknowledgments

In addition to the persons named above, Ellen V. Rubin, Tina Smith, Eric Mader, and Lou V.B. Smith made key contributions to this report.

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