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HUMAN CAPITAL

Observations on Final DHS Human Capital Regulations

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Highlights

Highlights of GAO-05-391T, a report to Subcommittee on the Federal Workforce and Agency Organization, Committee on Government Reform, House of Representatives

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Why GAO Did This Study

People are critical to any agency transformation, such as the one envisioned for the Department of Homeland Security (DHS). They define an agency's culture, develop its knowledge base, and are its most important asset. Thus, strategic human capital management at DHS can help it marshal, manage, and maintain the people and skills needed to meet its critical mission. Congress provided DHS with significant flexibility to design a modern human capital management system. DHS and the Office of Personnel Management (OPM) have now jointly released the final regulations on DHS's new human capital system.

Last year, with the release of the proposed regulations, GAO observed that many of the basic principles underlying the regulations were consistent with proven approaches to strategic human capital management and deserved serious consideration. However, some parts of the human capital system raised questions for DHS, OPM, and Congress to consider in the areas of pay and performance management, adverse actions and appeals, and labor management relations. GAO also identified multiple implementation challenges for DHS once the final regulations for the new system were issued.

This testimony provides overall observations on DHS's intended human capital system and selected provisions of the final regulations.

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

What GAO Found

GAO believes that DHS's regulations contain many of the basic principles that are consistent with proven approaches to strategic human capital management. Positively, the final regulations provide for (1) a flexible, contemporary, performance-oriented, and market-based compensation system, including occupational clusters and pay bands; (2) continued involvement of employees and union officials throughout the implementation process, such as by participating in the development of the implementing directives and holding membership on the Homeland Security Compensation Committee; and (3) evaluations of the implementation of DHS's system.

On the other hand, GAO has three areas of concern that deserve attention from DHS senior leadership. First, DHS has considerable work ahead to define the details of the implementation of its system and getting those details right will be critical to the success of the overall system. Second, the performance management system merely allows, rather than requires, the use of core competencies that can help to provide reasonable consistency and clearly communicate to employees what is expected of them. Third, the pass/fail ratings or three summary rating levels for certain employee groups do not provide the meaningful differentiation in performance needed for transparency to employees and for making the most informed pay decisions.

Going forward, GAO believes that especially for this multiyear transformation, the Chief Operating Officer/Chief Management Officer concept could help to elevate, integrate, and institutionalize responsibility for the success of DHS's new human capital system and related implementation and transformation efforts. Second, a key implementation step for DHS is to assure an effective and on-going two-way communication effort that creates shared expectations among managers, employees, customers, and stakeholders. Last, DHS must ensure that it has the institutional infrastructure in place to make effective use of its new authorities. At a minimum, this infrastructure includes a human capital planning process that integrates human capital policies, strategies, and programs with its program goals, mission, and desired outcomes; the capabilities to effectively develop and implement a new human capital system; and importantly, the existence of a modern, effective, and credible performance management system that includes adequate safeguards to help assure consistency and prevent abuse.

While GAO strongly supports federal human capital reform, how it is done, when it is done, and the basis on which it is done can be the difference between success and failure. Thus, the DHS regulations are especially critical because of their potential implications for related governmentwide reform.

Chairman Porter and Members of the Subcommittee:

I appreciate the opportunity to be here today to provide our observations on the Department of Homeland Security's (DHS) final regulations on its new human capital system, which were published last month jointly by the Secretary of DHS and the Director of the Office of Personnel Management (OPM). As you know, I recently testified on these regulations before the Senate's Committee on Homeland Security and Governmental Affairs, Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia.[1] Since then, GAO issued its report on 21st century challenges, which is intended to help Congress address a range of 21st century trends and challenges, including our current unsustainable fiscal path, by providing a series of illustrative questions that could help support a fundamental and broad-based reexamination initiative.[2] Among the questions relevant to this hearing is one that asks: "How should the federal government update its compensation systems to be more market-based and performance-oriented?"

As the title of this hearing suggests—"The Countdown to Completion: Implementing the New Department of Homeland Security Personnel System"—DHS, and in many cases the federal government, must transform how it classifies, develops, motivates, and compensates its employees to achieve maximum results within available resources. People are critical to any agency's transformation, such as the one envisioned for DHS. They define an agency's culture, develop its knowledge, and are its most important asset. Thus, strategic human capital management at DHS can help it marshal, manage, and maintain the people and skills needed to meet its critical mission.

As we recently reported in our High-Risk Series, significant changes in how the federal workforce is managed, such as DHS's new human capital system, are underway.[3] Consequently, there is general recognition that the government needs a framework to guide this human capital reform, one

[1]See Highlights page attached to this statement and GAO, *Human Capital: Preliminary Observations on Final Department of Homeland Security Human Capital Regulations*, GAO-05-320T (Washington, D.C.: Feb. 10, 2005).

[2]GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-325SP (Washington, D.C.: February 2005).

[3]GAO, *High-Risk Series: An Update*, GAO-05-207 (Washington, D.C.: January 2005).

that Congress and the administration can implement to enhance performance, ensure accountability, and position the nation for the future. These final regulations, which according to DHS will affect about 110,000 federal employees, are especially critical because of their implications for governmentwide reforms.

Today, I will discuss some of the major features of the DHS regulations. In doing so, I will touch on several key themes. Specifically, I will highlight three positive features, three areas of concern, and three comments going forward that are suggested in my statement today. Let me start by summarizing three positive features of the intended DHS human capital system. First, we believe that, consistent with the observations we made a year ago, the final regulations provide for a flexible, contemporary, performance-oriented, and market-based compensation system.[4] Under the regulations, DHS is to establish occupational clusters and pay bands and may, after coordination with OPM, set and adjust pay ranges taking into account mission requirements, labor market conditions, availability of funds, and other relevant factors. Second, DHS appears to be committed to continue to involve employees and union officials throughout the implementation process, including participating in the development of the implementing directives, holding membership on the Homeland Security Compensation Committee, and helping in the design and review of the evaluations of the new system. Third, high-performing organizations continually review and revise their human capital systems. To this end, the final regulations state that DHS is to establish procedures for evaluating the implementation of its system.

On the other hand, I have three areas of concern that I believe need to be addressed to maximize DHS's chance of success. First, DHS has considerable work ahead to define the details of the implementation of its system and understanding these details is important in assessing the overall system. Second, the performance management system merely allows, rather than requires, the use of core competencies that can help to provide reasonable consistency and clearly communicate to employees what is expected of them. Employees validating these competencies would

[4]GAO, *Human Capital: Preliminary Observations on Proposed DHS Human Capital Regulations*, GAO-04-479T (Washington, D.C.: Feb. 25, 2004); *Posthearing Questions Related to Proposed Department of Homeland Security (DHS) Human Capital Regulations*, GAO-04-570R (Washington, D.C.: Mar. 22, 2004); and *Additional Posthearing Questions Related to Proposed Department of Homeland Security (DHS) Human Capital Regulations*, GAO-04-617R (Washington, D.C.: Apr. 30, 2004).

help to gain their acceptance and credibility and minimize adverse actions. This has certainly been our experience with our own internal efforts at GAO. Third, pass/fail ratings for employees in the "Entry/Developmental" band or three summary rating levels for other employee groups do not provide the meaningful differentiation in performance needed for transparency to employees and for making the most informed pay decisions.

Going forward, we believe that especially for this multiyear transformation, the Chief Operating Officer/Chief Management Officer concept could help to elevate, integrate, and institutionalize responsibility for the success of DHS's new human capital system. Second, a key implementation step for DHS is to assure an effective and on-going two-way communication effort that creates shared expectations among managers, employees, customers, and stakeholders. Last, we are very concerned that DHS must ensure that it has the institutional infrastructure in place to make effective use of its new authorities. At a minimum, this infrastructure includes a human capital planning process that integrates human capital policies, strategies, and programs with its program goals, mission, and desired outcomes; the capabilities to effectively develop and implement a new human capital system; and importantly, the existence of a modern, effective, and credible performance management system that includes adequate safeguards to help assure consistency and prevent abuse.

This morning I would like to provide some observations on the final DHS regulations, discuss the multiple challenges that DHS confronts as it moves towards implementation of its new human capital system, and then suggest a governmentwide framework that can serve as a starting point to advance human capital reform.

Observations on Final DHS Human Capital Regulations

The final regulations establish a new human capital system for DHS that is intended to assure its ability to attract, retain, and reward a workforce that is able to meet its critical mission. Further, the human capital system is to provide for greater flexibility and accountability in the way employees are to be paid, developed, evaluated, afforded due process, and represented by labor organizations while reflecting the principles of merit and fairness embodied in the statutory merit systems principles.

Predictable with any change management initiative, the DHS regulations have raised some concerns among employee groups, unions, and other stakeholders because they do not have all the details of how the system will be implemented and impact them. We have reported that individuals inevitably worry during any change management initiative because of uncertainty over new policies and procedures.[5] A key practice to address this worry is to involve employees and their representatives to obtain their ideas and gain their ownership for the initiative. Thus, a significant improvement from the proposed regulations is that now employee representatives are to be provided with an opportunity to remain involved. Specifically, they can discuss their views with DHS officials and/or submit written comments as implementing directives are developed, as outlined under the "continuing collaboration" provisions. This collaboration is consistent with DHS's statutory authority to establish a new human capital system, which requires such continuing collaboration. Under the regulations, nothing in the continuing collaboration process is to affect the right of the Secretary to determine the content of implementing directives and to make them effective at any time.

In addition, the final regulations state that DHS is to establish procedures for evaluating the implementation of its human capital system. High-performing organizations continually review and revise their human capital management systems based on data-driven lessons learned and changing needs in the environment. Collecting and analyzing data is the fundamental building block for measuring the effectiveness of these systems in support of the mission and goals of the agency.

We continue to believe that many of the basic principles underlying the DHS regulations are generally consistent with proven approaches to strategic human capital management. Today, I will provide our observations on the following elements of DHS's human capital system as outlined in the final regulations—pay and performance management, adverse actions and appeals, and labor-management relations.

[5]GAO, *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, GAO-03-669 (Washington, D.C.: July 2, 2003) and *Highlights of a GAO Forum: Lessons Learned for a Department of Homeland Security and Other Federal Agencies*, GAO-03-293SP (Washington, D.C.: Nov. 14, 2002).

Pay and Performance Management

Last year, we testified that the DHS proposal reflects a growing understanding that the federal government needs to fundamentally rethink its current approach to pay and better link pay to individual and organizational performance.[6] To this end, the DHS proposal takes another valuable step towards modern performance management. Among the key provisions is a performance-oriented and market-based pay system.

We have observed that a competitive compensation system can help organizations attract and retain a quality workforce.[7] To begin to develop such a system, organizations assess the skills and knowledge they need; compare compensation against other public, private, or nonprofit entities competing for the same talent in a given locality; and classify positions along levels of responsibility. While one size does not fit all, organizations generally structure their competitive compensation systems to separate base salary—which all employees receive—from other special incentives, such as merit increases, performance awards, or bonuses, which are provided based on performance and contributions to organizational results.

According to the final regulations, DHS is to establish occupational clusters and pay bands that replace the current General Schedule (GS) system now in place for much of the civil service. DHS may, after coordination with OPM, establish occupational clusters based on factors such as mission or function, nature of work, qualifications or competencies, career or pay progression patterns, relevant labor-market features, and other characteristics of those occupations or positions. DHS is to document in implementing directives the criteria and rationale for grouping occupations or positions into clusters as well as the definitions for each band's range of difficulty and responsibility, qualifications, competencies, or other characteristics of the work.

As we testified last year, pay banding and movement to broader occupational clusters can both facilitate DHS's movement to a pay for performance system and help DHS to better define occupations, which can improve the hiring process. We have reported that the current GS system as defined in the Classification Act of 1949 is a key barrier to comprehensive human capital reform and the creation of broader occupational job clusters

[6]GAO-04-479T.

[7]GAO-04-617R.

and pay bands would aid other agencies as they seek to modernize their personnel systems.[8] Today's jobs in knowledge-based organizations require a much broader array of tasks that may cross over the narrow and rigid boundaries of job classifications of the GS system.

Under the final regulations, DHS is to convert employees from the GS system to the new system without a reduction in their current pay. According to DHS, when employees are converted from the GS system to a pay band, their base pay is to be adjusted to include a percentage of their next within-grade increase, based on the time spent in their current step and the waiting period for the next step. DHS stated that most employees would receive a slight increase in salary upon conversion to a pay band. This approach is consistent with how several of OPM's personnel demonstration projects converted employees from the GS system.

The final DHS regulations include other elements of a modern compensation system. For example, the regulations provide that DHS may, after coordination with OPM, set and adjust the pay ranges for each pay band taking into account mission requirements, labor market conditions, availability of funds, pay adjustments received by other federal employees, and any other relevant factors. In addition, DHS may, after coordination with OPM, establish locality rate supplements for different occupational clusters or for different bands within the same cluster in the same locality pay area. According to DHS, these locality rates would be based on the cost of labor rather than cost of living factors. The regulations state that DHS would use recruitment or retention bonuses if it experiences such problems due to living costs in a particular geographic area.

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

Especially when developing a new performance management system, high-performing organizations have found that actively involving employees and key stakeholders, such as unions or other employee associations, helps gain ownership of the system and improves employees' confidence and belief in the fairness of the system.[9] DHS recognized that the system must be designed and implemented in a transparent and credible manner that involves employees and employee representatives. A new and positive addition to the final regulations is a Homeland Security Compensation Committee that is to provide oversight and transparency to the compensation process. The committee—consisting of 14 members, including four officials of labor organizations—is to develop recommendations and options for the Secretary's consideration on compensation and performance management matters, including the annual allocation of funds between market and performance pay adjustments.

While the DHS regulations contain many elements of a performance-oriented and market-based pay system, there are several issues that we identified last year that DHS will need to continue to address as it moves forward with the implementation of the system. These issues include linking organizational goals to individual performance, using competencies to provide a fuller assessment of performance, making meaningful distinctions in employee performance, and continuing to incorporate adequate safeguards to ensure fairness and guard against abuse.

Linking Organizational Goals to Individual Performance

Consistent with leading practice, the DHS performance management system is to align individual performance expectations with the mission, strategic goals, organizational program and policy objectives, annual performance plans, and other measures of performance. DHS's performance management system can be a vital tool for aligning the organization with desired results and creating a "line of sight" showing how team, unit, and individual performance can contribute to overall organizational results.[10] However, as we testified last year, agencies struggle to create this line of sight.

[9]GAO, *Results-Oriented Cultures: Creating a Clear Linkage between Individual Performance and Organizational Success*, GAO-03-488 (Washington, D.C.: Mar. 14, 2003).

[10]GAO-03-488.

Using Competencies to Provide a Fuller Assessment of Performance

DHS appropriately recognizes that given its vast diversity of work, managers and employees need flexibility in crafting specific performance expectations for their employees. These expectations may take the form of competencies an employee is expected to demonstrate on the job, among other things. However, as DHS develops its implementing directives, the experiences of leading organizations suggest that DHS should reconsider its position to merely allow, rather than require, the use of core competencies that employees must demonstrate as a central feature of its performance management system. Based on our review of others' efforts and our own experience at GAO, core competencies can help reinforce employee behaviors and actions that support the department's mission, goals, and values and can provide a consistent message to employees about how they are expected to achieve results.[11] For example, an OPM personnel demonstration project—the Civilian Acquisition Workforce Personnel Demonstration Project—covers various organizational units within the Department of Defense and applies core competencies for all employees, such as teamwork/cooperation, customer relations, leadership/supervision, and communication.

Similarly, as we testified last year, DHS could use competencies—such as achieving results, change management, cultural sensitivity, teamwork and collaboration, and information sharing—to reinforce employee behaviors and actions that support its mission, goals, and values and to set expectations for individuals' roles in DHS's transformation. By including such competencies throughout its performance management system, DHS could create a shared responsibility for organizational success and help assure accountability for change.

Making Meaningful Distinctions in Employee Performance

High-performing organizations seek to create pay, incentive, and reward systems that clearly link employee knowledge, skills, and contributions to organizational results. These organizations make meaningful distinctions between acceptable and outstanding performance of individuals and appropriately reward those who perform at the highest level.[12] The final regulations state that DHS supervisors and managers are to be held accountable for making meaningful distinctions among employees based on performance, fostering and rewarding excellent performance, and

[11]GAO, *Human Capital: Implementing Pay for Performance at Selected Personnel Demonstration Projects*, GAO-04-83 (Washington, D.C.: Jan. 23, 2004).

[12]GAO-03-488.

addressing poor performance. While DHS states that as a general matter, pass/fail ratings are incompatible with pay for performance, it is to permit use of pass/fail ratings for employees in the "Entry/Developmental" band or in other pay bands under extraordinary circumstances as determined by the Secretary.

DHS is to require the use of a least three summary rating levels for other employee groups. We urge DHS to consider using at least four summary rating levels to allow for greater performance rating and pay differentiation. This approach is in the spirit of the new governmentwide performance-based pay system for the Senior Executive Service (SES), which requires at least four levels to provide a clear and direct link between SES performance and pay as well as to make meaningful distinctions based on relative performance.[13] Cascading this approach to other levels of employees can help DHS recognize and reward employee contributions and achieve the highest levels of individual performance.

Providing Adequate Safeguards to Ensure Fairness and Guard Against Abuse

As DHS develops its implementing directives, it also needs to continue to build safeguards into its performance management system. A concern that employees often express about any pay for performance system is supervisors' ability to assess performance fairly. Using safeguards, such as having an independent body to conduct reasonableness reviews of performance management decisions, can help to allay these concerns and build a fair, credible, and transparent system.

It should be noted that the final regulations no longer provide for a Performance Review Board (PRB) to review ratings in order to promote consistency, provide general oversight of the performance management system, and ensure it is administered in a fair, credible, and transparent manner. According to the final regulations, participating labor organizations expressed concern that the PRBs could delay pay decisions and give the appearance of unwarranted interference in the performance rating process. However, in the final regulations, DHS states that it continues to believe that an oversight mechanism is important to the credibility of the department's pay for performance system and that the Compensation Committee, in place of PRBs, is to conduct an annual review of performance payout summary data. While much remains to be

[13]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).

determined about how the Compensation Committee is to operate, we believe that the effective implementation of such a committee is important to assuring that predecisional internal safeguards exist to help achieve consistency and equity, and assure non-discrimination and non-politicization of the performance management process.

We have also reported that agencies need to assure reasonable transparency and provide appropriate accountability mechanisms in connection with the results of the performance management process.[14] For DHS, this can include publishing internally the overall results of performance management and individual pay decisions while protecting individual confidentiality and reporting periodically on internal assessments and employee survey results relating to the performance management system. Publishing this information can provide employees with the information they need to better understand the performance management system and to generally compare their individual performance with their peers. We found that several of OPM's personnel demonstration projects publish information for employees on internal Web sites that include the overall results of performance appraisal and pay decisions, such as the average performance rating, the average pay increase, and the average award for the organization and for each individual unit.

Adverse Actions and Appeals

DHS's final regulations are intended to simplify and streamline the employee adverse action process to provide greater flexibility for the department and to minimize delays, while also ensuring due process protections. It is too early to tell what impact, if any, these regulations would have on DHS's operations and employees or other entities, such as the Merit Systems Protection Board (MSPB). Close monitoring of any unintended consequences, such as on MSPB and its ability to manage cases from DHS and other federal agencies, is warranted.

In terms of adverse actions, the regulations modify the current federal system in that the DHS Secretary will have the authority to identify specific offenses for which removal is mandatory. In our previous testimony on the proposed regulations, we expressed some caution about this new authority and pointed out that the process for determining and communicating which

[14]GAO-04-83.

types of offenses require mandatory removal should be explicit and transparent. We noted that such a process should include an employee notice and comment period before implementation and collaboration with relevant congressional stakeholders and employee representatives. The final DHS regulations explicitly provide for publishing a list of the mandatory removal offenses in the *Federal Register* and in DHS's implementing directives and making these offenses known to employees annually.

In last year's testimony, we also suggested that DHS exercise caution when identifying specific removable offenses and the specific punishment. When developing and implementing the regulations, DHS might learn from the experience of the Internal Revenue Service's (IRS) implementation of its mandatory removal provisions.[15] We reported that IRS officials believed this provision had a negative impact on employee morale and effectiveness and had a "chilling effect" on IRS frontline enforcement employees who were afraid to take certain appropriate enforcement actions.[16] Careful drafting of each removable offense is critical to ensure that the provision does not have unintended consequences.

Under the DHS regulations, employees alleged to have committed these mandatory removal offenses are to have the right to a review by a newly created panel. DHS regulations provide for judicial review of the panel's decisions. Members of this three-person panel are to be appointed by the Secretary for three-year terms. In last year's testimony, we noted that the independence of the panel that is to hear appeals of mandatory removal actions deserved further consideration. The final regulations address the issue of independence by prescribing additional qualification requirements which emphasize integrity and impartiality and requiring the Secretary to consider any lists of candidates submitted by union representatives for panel positions other than the chair. Employee perception concerning the independence of this panel is critical to the mandatory removal process.

Regarding the appeal of adverse actions other than mandatory removals, the DHS regulations generally preserve the employee's basic right to appeal decisions to an independent body—MSPB—but with procedures different

[15]Section 1203 of the IRS Restructuring and Reform Act of 1998 outlines conditions for the firing of IRS employees for any of ten acts of misconduct.

[16]GAO, *Tax Administration: IRS and TIGTA Should Evaluate Their Processing of Employee Misconduct Under Section 1203*, GAO-03-394 (Washington, D.C.: Feb. 14, 2003).

from those applicable to other federal employees.[17] However, in a change from the proposed regulations in taking actions against employees for performance or conduct issues, DHS is to meet a higher standard of evidence—a "preponderance of evidence" instead of "substantial evidence." For performance issues, while this higher standard of evidence means that DHS would face a greater burden of proof than most agencies to pursue these actions, DHS managers are not required to provide employees performance improvement periods, as is the case for other federal employees. For conduct issues, DHS would face the same burden of proof as most agencies.

The regulations shorten the notification period before an adverse action can become effective and provide an accelerated MSPB adjudication process. In addition, MSPB may no longer modify a penalty for a conduct-based adverse action that is imposed on an employee by DHS unless such penalty was "wholly without justification." The DHS regulations also stipulate that MSPB can no longer require that parties enter into settlement discussions, although either party may propose doing so. DHS expressed concerns that settlement should be a completely voluntary decision made by parties on their own. However, settling cases has been an important tool in the past at MSPB, and promotion of settlement at this stage should be encouraged.

The final regulations continue to support a commitment to the use of Alternative Dispute Resolution (ADR), which we previously noted was a positive development. To resolve disputes in a more efficient, timely, and less adversarial manner, federal agencies have been expanding their human capital programs to include ADR approaches, including the use of ombudsmen as an informal alternative to addressing conflicts.[18] ADR is a tool for supervisors and employees alike to facilitate communication and resolve conflicts. As we have reported, ADR helps lessen the time and the cost burdens associated with the federal redress system and has the advantage of employing techniques that focus on understanding the disputants' underlying interests over techniques that focus on the validity

[17]Employees under collective bargaining agreements can choose to grieve and arbitrate adverse actions other than mandatory removals through negotiated grievance procedures or take these actions to MSPB.

[18]GAO, *Human Capital: The Role of Ombudsmen in Dispute Resolution*, GAO-01-466 (Washington, D.C.: Apr. 13, 2001).

of their positions.[19] For these and other reasons, we believe that it is important to continue to promote ADR throughout the process.

Labor-Management Relations

Under the DHS regulations, the scope and method of labor union involvement in human capital issues are to change. DHS management is no longer required to engage in collective bargaining and negotiations on as many human capital policies and processes as in the past. For example, certain actions that DHS has determined are critical to the mission and operations of the department, such as deploying staff and introducing new technologies, are now considered management rights and are not subject to collective bargaining and negotiation. DHS, however, is to confer with employees and unions in developing the procedures it will use to take these actions. Other human capital policies and processes that DHS characterizes as "non-operational," such as selecting, promoting, and disciplining employees, are also not subject to collective bargaining, but DHS must negotiate the procedures it will use to take these actions. Finally, certain other policies and processes, such as how DHS will reimburse employees for any "significant and substantial" adverse impacts resulting from an action, such as a rapid change in deployment, must be negotiated.

In addition, DHS is to establish its own internal labor relations board—the Homeland Security Labor Relations Board—to deal with most agencywide labor relations policies and disputes rather than submit them to the Federal Labor Relations Authority. DHS stated that the unique nature of its mission—homeland protection—demands that management have the flexibility to make quick resource decisions without having to negotiate them, and that its own internal board would better understand its mission and, therefore, be better able to address disputes. Labor organizations are to nominate names of individuals to serve on the Board and the regulations established some general qualifications for the board members. However, the Secretary is to retain the authority to both appoint and remove any member. Similar to the mandatory removal panel, employee perception concerning the independence of this board is critical to the resolution of the issues raised over labor relations policies and disputes. These changes have not been without controversy, and four federal employee unions have filed suit alleging that DHS has exceeded its authority under the statute

[19]GAO, *Alternative Dispute Resolution: Employers' Experiences With ADR in the Workplace*, GAO/GGD-97-157 (Washington D.C.: Aug. 12, 1997).

establishing the DHS human capital system.[20] The suit discusses bargaining and negotiability practices, adverse action procedures, and the roles of the Federal Labor Relations Authority and MSPB under the DHS regulations.

Our previous work on individual agencies' human capital systems has not directly addressed the scope of specific issues that should or should not be subject to collective bargaining and negotiations. At a forum we co-hosted exploring the concept of a governmentwide framework for human capital reform, which I will discuss later, participants generally agreed that the ability to organize, bargain collectively, and participate in labor organizations is an important principle to be retained in any framework for reform. It was also suggested at the forum that unions must be both willing and able to actively collaborate and coordinate with management if unions are to be effective representatives of their members and real participants in any human capital reform.

DHS Confronts Many Challenges to Successful Implementation

With the issuance of the final regulations, DHS faces multiple challenges to the successful implementation of its new human capital system. We identified multiple implementation challenges at last year's hearing. Subsequently, we reported that DHS's actions to date in designing its human capital system and its stated plans for future work on its system are helping to position the department for successful implementation.[21] Nevertheless, DHS was in the early stages of developing the infrastructure needed for implementing its new system. For more information on these challenges, as well as on related human capital topics, see the "Highlights" pages attached to this statement.

We believe that these challenges are still critical to the success of the new human capital system. In many cases, DHS has acknowledged these challenges and made a commitment to address them in regulations. Today I would like to focus on two additional implementation challenges—ensuring sustained and committed leadership and establishing an overall consultation and communication strategy—and then reiterate challenges we previously identified, including providing adequate resources for

[20] *National Treasury Employees Union v. Ridge*, No. 1:05cv201 (D.D.C. filed Jan. 27, 2005).

[21] GAO, *Human Capital: DHS Faces Challenges in Implementing Its New Personnel System*, GAO-04-790 (Washington, D.C.: June 18, 2004).

implementing the new system and involving employees and other stakeholders in implementing the system.

Ensuring Sustained and Committed Leadership

As DHS and other agencies across the federal government embark on large-scale organizational change initiatives, such as the new human capital system DHS is implementing, there is a compelling need to elevate, integrate, and institutionalize responsibility for such key functional management initiatives to help ensure their success.[22] A Chief Operating Officer/Chief Management Officer (COO/CMO) or similar position can effectively provide the continuing, focused attention essential to successfully completing these multiyear transformations.

Especially for such an endeavor as critical as DHS's new human capital system, such a position would serve to

- elevate attention that is essential to overcome an organization's natural resistance to change, marshal the resources needed to implement change, and build and maintain the organizationwide commitment to new ways of doing business;
- integrate this new system with various management responsibilities so they are no longer "stovepiped" and fit it into other organizational transformation efforts in a comprehensive, ongoing, and integrated manner; and
- institutionalize accountability for the system so that the implementation of this critical human capital initiative can be sustained.

We have work underway at the request of Congress to assess DHS's management integration efforts, including the role of existing senior leadership positions as compared to a COO/CMO position, and expect to issue a report on this work in the coming weeks.

[22]GAO, *The Chief Operating Officer Concept and Its Potential Use as a Strategy to Improve Management at the Department of Homeland Security*, GAO-04-876R (Washington, D.C.: June 28, 2004) and *Highlights of a GAO Roundtable: The Chief Operating Officer Concept: A Potential Strategy To Address Federal Governance Challenges*, GAO-03-192SP (Washington, D.C.: Oct. 4, 2002).

Establishing an Overall Communication Strategy

Another significant challenge for DHS is to assure an effective and ongoing two-way consultation and communication strategy that creates shared expectations about, and reports related progress on, the implementation of the new system. We have reported this is a key practice of a change management initiative.[23] DHS's final regulations recognize that all parties will need to make a significant investment in communication in order to achieve successful implementation of its new human capital system. According to DHS, its communication strategy will include global e-mails, satellite broadcasts, Web pages, and an internal DHS weekly newsletter. DHS stated that its leaders will be provided tool kits and other aids to facilitate discussions and interactions between management and employees on program changes.

Given the attention over the regulations, a critical implementation step is for DHS to assure a communication strategy. Communication is not about just "pushing the message out." Rather, it should facilitate a two-way honest exchange with, and allow for feedback from, employees, customers, and key stakeholders. This communication is central to forming the effective internal and external partnerships that are vital to the success of any organization. Creating opportunities for employees to communicate concerns and experiences about any change management initiative allows employees to feel that their experiences are acknowledged and important to management during the implementation of any change management initiative. Once this feedback is received, it is important to consider and use this solicited employee feedback to make any appropriate changes to its implementation. In addition, closing the loop by providing information on why key recommendations were not adopted is also important.

Providing Adequate Resources for Implementing the New System

OPM reports that the increased costs of implementing alternative personnel systems should be acknowledged and budgeted for up front.[24] DHS estimates the overall costs associated with implementing the new DHS system—including the development and implementation of a new pay and performance management system, the conversion of current employees to that system, and the creation of its new labor relations board—will be approximately $130 million through fiscal year 2007 (i.e.,

[23]GAO-03-669.

[24]U.S. Office of Personnel Management, *Demonstration Projects and Alternative Personnel Systems: HR Flexibilities and Lessons Learned* (Washington, D.C.: September 2001).

over a 4-year period) and less than $100 million will be spent in any 12-month period.

We found that based on the data provided by selected OPM personnel demonstration projects, direct costs associated with salaries and training were among the major cost drivers of implementing their pay for performance systems. Certain costs, such as those for initial training on the new system, are one-time in nature and should not be built into the base of DHS's budget. Other costs, such as employees' salaries, are recurring and thus would be built into the base of DHS's budget for future years.

We found that the approaches the demonstration projects used to manage salary costs were to consider fiscal conditions and the labor market and to provide a mix of one-time awards and permanent pay increases. For example, rewarding an employee's performance with an award instead of an equivalent increase to base pay can reduce salary costs in the long run because the agency only has to pay the amount of the award one time, rather than annually. However, one approach that the demonstration projects used to manage costs that is not included in the final regulations is the use of "control points." We found that the demonstration projects used such a mechanism—sometimes called speed bumps—to manage progression through the bands to help ensure that employees' performance coincides with their salaries and prevent all employees from eventually migrating to the top of the band and thus increase costs.

According to the DHS regulations, its performance management system is designed to incorporate adequate training and retraining for supervisors, managers, and employees in the implementation and operation of the system. Each of OPM's personnel demonstration projects trained employees on the performance management system prior to implementation to make employees aware of the new approach, as well as periodically after implementation to refresh employee familiarity with the system. The training was designed to help employees understand their applicable competencies and performance standards; develop performance plans; write self-appraisals; become familiar with how performance is evaluated and how pay increases and awards decisions are made; and know the roles and responsibilities of managers, supervisors, and employees in the appraisal and payout processes.

Involving Employees and Other Stakeholders in Implementing the System

We reported in September 2003 that DHS's and OPM's effort to design a new human capital system was collaborative and facilitated participation of employees from all levels of the department.[25] We recommended that the Secretary of DHS build on the progress that had been made and ensure that the communication strategy used to support the human capital system maximize opportunities for employee and key stakeholder involvement through the completion of design and implementation of the new system, with special emphasis on seeking the feedback and buy-in of frontline employees. In implementing this system, DHS should continue to recognize the importance of employee and key stakeholder involvement. Leading organizations involve employee unions, as well as involve employees directly, and consider their input in formulating proposals and before finalizing any related decisions.[26]

To this end, DHS's final regulations have attempted to recognize the importance of employee involvement in implementing the new personnel system. As we discussed earlier, the final DHS regulations provide for continuing collaboration in further development of the implementing directives and participation on the Compensation Committee. The regulations also provide that DHS is to involve employees in evaluations of the human capital system. Specifically, DHS is to provide designated employee representatives with the opportunity to be briefed and a specified timeframe to provide comments on the design and results of program evaluation. Further, employee representatives are to be involved at the identification of the scope, objectives, and methodology to be used in the program evaluation and in the review of draft findings and recommendations.

Framework for Governmentwide Human Capital Reform

DHS has recently joined some other federal departments and agencies, such as the Department of Defense, GAO, National Aeronautics and Space Administration, and the Federal Aviation Administration, in receiving authorities intended to help them manage their human capital strategically to achieve results. To help advance the discussion concerning how governmentwide human capital reform should proceed, GAO and the

[25]GAO, *Human Capital: DHS Personnel System Design Effort Provides for Collaboration and Employee Participation*, GAO-03-1099 (Washington, D.C.: Sept. 30, 2003).

[26]GAO, *Human Capital: Practices that Empowered and Involved Employees*, GAO-01-1070 (Washington, D.C.: Sept. 14, 2001).

National Commission on the Public Service Implementation Initiative hosted a forum in April 2004 on whether there should be a governmentwide framework for human capital reform and, if so, what this framework should include.[27] While there was widespread recognition among the forum participants that a one-size-fits-all approach to human capital management is not appropriate for the challenges and demands government faces, there was equally broad agreement that there should be a governmentwide framework to guide human capital reform. Further, a governmentwide framework should balance the need for consistency across the federal government with the desire for flexibility so that individual agencies can tailor human capital systems to best meet their needs. Striking this balance is not easy to achieve, but is necessary to maintain a governmentwide system that is responsive enough to adapt to agencies' diverse missions, cultures, and workforces.

While there were divergent views among the forum participants, there was general agreement on a set of principles, criteria, and processes that would serve as a starting point for further discussion in developing a governmentwide framework in advancing human capital reform, as shown in figure 1.

[27]GAO and the National Commission on the Public Service Implementation Initiative, *Highlights of a Forum: Human Capital: Principles, Criteria, and Processes for Governmentwide Federal Human Capital Reform*, GAO-05-69SP (Washington, D.C.: Dec. 1, 2004).

Figure 1: Principles, Criteria, and Processes

Principles that the government should retain in a framework for reform because of their inherent, enduring qualities:

- Merit principles that balance organizational mission, goals, and performance objectives with individual rights and responsibilities
- Ability to organize, bargain collectively, and participate through labor organizations
- Certain prohibited personnel practices
- Guaranteed due process that is fair, fast, and final

Criteria that agencies should have in place as they plan for and manage their new human capital authorities:

- Demonstrated business case or readiness for use of targeted authorities
- An integrated approach to results-oriented strategic planning and human capital planning and management
- Adequate resources for planning, implementation, training, and evaluation
- A modern, effective, credible, and integrated performance management system that includes adequate safeguards to ensure equity and prevent discrimination

Processes that agencies should follow as they implement new human capital authorities:

- Prescribing regulations in consultation or jointly with the Office of Personnel Management
- Establishing appeals processes in consultation with the Merit Systems Protection Board
- Involving employees and stakeholders in the design and implementation of new human capital systems
- Phasing in implementation of new human capital systems
- Committing to transparency, reporting, and evaluation
- Establishing a communications strategy
- Assuring adequate training

Source: GAO.

As the momentum accelerates for human capital reform, GAO is continuing to work with others to address issues of mutual interest and concern. For example, to follow up on the April forum, the National Academy of Public Administration and the National Commission on the Public Service Implementation Initiative convened a group of human capital stakeholders to continue the discussion of a governmentwide framework.[28]

Summary Observations

The final regulations that DHS has issued represent a positive step towards a more strategic human capital management approach for both DHS and the overall government, a step we have called for in our recent High-Risk Series. Consistent with our observations last year, DHS's regulations make progress towards a modern classification and compensation system. DHS's overall efforts in designing and implementing its human capital system can be particularly instructive for future human capital reform. Nevertheless, regarding the implementation of the DHS system, how it is done, when it is done, and the basis on which it is done can make all the difference in whether it will be successful. That is why it is important to recognize that DHS still has to fill in many of the details on how it will implement these reforms. These details do matter and they need to be disclosed and analyzed in order to fully assess DHS's proposed reforms. We have made a number of suggestions for improvements the agency should consider in this process. It is equally important for the agency to ensure it has the necessary infrastructure in place to implement the system, not only an effective performance management system, but also the capabilities to effectively use the new human capital authorities and a strategic human capital planning process. This infrastructure should be in place before any new flexibilities are operationalized.

DHS appears to be committed to continue to involve employees, including unions, throughout the implementation process, another critical ingredient for success. Specifically, under DHS's final regulations, employee representatives or union officials are to have opportunities to participate in developing the implementing directives, as outlined under the "continuing collaboration" provisions; hold four membership seats on the Homeland Security Compensation Committee; and help in evaluations of the human capital system. A continued commitment to a meaningful and ongoing two-

[28]See The National Commission on the Public Service Implementation Initiative and The National Academy of Public Administration, *A Governmentwide Framework for Federal Personnel Reform: A Proposal* (Washington, D.C.: November 2004).

way consultation and communication strategy that allows for ongoing feedback from employees, customers, and key stakeholders is central to forming the effective internal and external partnerships that are vital to the success of DHS's human capital system. It is critically important that these consultation and communication processes be meaningful in order to be both credible and effective. Finally, to help ensure the quality of that involvement, sustained leadership in a position such as a COO/CMO could help to elevate, integrate, and institutionalize responsibility for the success of DHS's human capital system and other key business transformation initiatives.

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

Contacts and Acknowledgements

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"Highlights" from Selected GAO Human Capital Reports

Highlights of GAO-05-320T, a testimony before the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

At the center of any agency transformation, such as the one envisioned for the Department of Homeland Security (DHS), are the people who will make it happen. Thus, strategic human capital management at DHS can help it marshal, manage, and maintain the people and skills needed to meet its critical mission. Congress provided DHS with significant flexibility to design a modern human capital management system. DHS and the Office of Personnel Management (OPM) have now jointly released the final regulations on DHS's new human capital system.

Last year, with the release of the proposed regulations, GAO observed that many of the basic principles underlying the regulations were consistent with proven approaches to strategic human capital management and deserved serious consideration. However, some parts of the human capital system raised questions for DHS, OPM, and Congress to consider in the areas of pay and performance management, adverse actions and appeals, and labor management relations. GAO also identified multiple implementation challenges for DHS once the final regulations for the new system were issued.

This testimony provides preliminary observations on selected provisions of the final regulations.

www.gao.gov/cgi-bin/getrpt?GAO-05-320T.

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

February 10, 2005

HUMAN CAPITAL

Preliminary Observations on Final Department of Homeland Security Human Capital Regulations

What GAO Found

GAO believes that the regulations contain many of the basic principles that are consistent with proven approaches to strategic human capital management. For example, many elements for a modern compensation system—such as occupational clusters, pay bands, and pay ranges that take into account factors such as labor market conditions—are to be incorporated into DHS's new system. However, these final regulations are intended to provide an outline and not a detailed, comprehensive presentation of how the new system will be implemented. Thus, DHS has considerable work ahead to define the details of the implementation of its system and understanding these details is important in assessing the overall system.

The implementation challenges we identified last year are still critical to the success of the new system. Also, DHS appears to be committed to continue to involve employees, including unions, throughout the implementation process. Specifically, according to the regulations, employee representatives or union officials are to have opportunities to participate in developing the implementing directives, hold four membership seats on the Homeland Security Compensation Committee, and help in the design and review the results of evaluations of the new system. Further, GAO believes that to help ensure the quality of that involvement, DHS will need to

- *Ensure sustained and committed leadership.* A Chief Operating Officer/Chief Management Officer or similar position at DHS would serve to elevate, integrate, and institutionalize responsibility for this critical endeavor and help ensure its success by providing the continuing, focused attention needed to successfully complete the multiyear conversion to the new human capital system.

- *Establish an overall communication strategy.* According to DHS, its planned communication strategy for its new human capital system will include global e-mails, satellite broadcasts, Web pages, and an internal DHS weekly newsletter. A key implementation step for DHS is to assure an effective and on-going two-way communication effort that creates shared expectations among managers, employees, customers, and stakeholders.

While GAO strongly supports human capital reform in the federal government, 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. GAO's implementation of its own human capital authorities, such as pay bands and pay for performance, could help inform other organizations as they design systems to address their human capital needs. The final regulations for DHS's new system are especially critical because of the potential implications for related governmentwide reforms.

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Highlights of GAO-04-479T, testimony before subcommittees of the Senate Committee on Governmental Affairs and the House Committee on Government Reform

February 25, 2004

HUMAN CAPITAL

Preliminary Observations on Proposed DHS Human Capital Regulations

Why GAO Did This Study

The creation of the Department of Homeland Security (DHS) almost one year ago represents an historic moment for the federal government to fundamentally transform how the nation will protect itself from terrorism. DHS is continuing 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, GAO designated this implementation and transformation as high risk in January 2003.

Congress provided DHS with significant flexibility to design a modern human capital management system. GAO reported in September 2003 that the design effort to develop the system was collaborative and consistent with positive elements of transformation. Last Friday, the Secretary of DHS and the Director of the Office of Personnel Management (OPM) released for public comment draft regulations for DHS's new human capital system. This testimony provides preliminary observations on selected major provisions of the proposed system. The subcommittees are also releasing *Human Capital: Implementing Pay for Performance at Selected Personnel Demonstration Projects* (GAO-04-83) at today's hearing.

www.gao.gov/cgi-bin/getrpt?GAO-04-479T.

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

What GAO Found

The proposed human capital system is designed to be aligned with the department's mission requirements and is intended to protect the civil service rights of DHS employees. Many of the basic principles underlying the DHS regulations are consistent with proven approaches to strategic human capital management, including several approaches pioneered by GAO, and deserve serious consideration. However, some parts of the system raise questions that DHS, OPM, and Congress should consider.

- Pay and performance management: The proposal takes another valuable step towards results-oriented pay reform and modern performance management. For effective performance management, DHS should use validated core competencies as a key part of evaluating individual contributions to departmental results and transformation efforts.
- Adverse actions and appeals: The proposal would retain an avenue for employees to appeal adverse actions to an independent third party. However, the process to identify mandatory removal offenses must be collaborative and transparent. DHS needs to be cautious about defining specific actions requiring employee removal and learn from the Internal Revenue Service's implementation of its mandatory removal provisions.
- Labor relations: The regulations recognize employees' right to organize and bargain collectively, but reduce areas subject to bargaining. Continuing to involve employees in a meaningful manner is critical to the successful operations of the department.

Once DHS issues final regulations for the human capital system, it will be faced with multiple implementation challenges:

- DHS plans to implement the system using a phased approach, however, nearly half of DHS civilian employees are not covered by these regulations, including more than 50,000 Transportation Security Administration screeners. To help build a unified culture, DHS should consider moving all of its employees under a single performance management system framework.
- DHS noted that it estimates that about $110 million will be needed to implement the new system in its first year. While adequate resources for program implementation are critical to program success, DHS is requesting a substantial amount of funding that warrants close scrutiny by Congress.
- The proposed regulations call for comprehensive, ongoing evaluations. Continued evaluation and adjustments will help to ensure an effective and credible human capital system.
- DHS has begun to develop a strategic workforce plan. Such a plan can be used as a tool for identifying core competencies for staff for attracting, developing, evaluating, and rewarding contributions to mission accomplishment.

The analysis of DHS's effort to develop a strategic human capital management system can be instructive as other agencies request and implement new strategic human capital management authorities.

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Highlights of GAO-04-790, a report to congressional requesters

June 2004

HUMAN CAPITAL

DHS Faces Challenges in Implementing Its New Personnel System

Why GAO Did This Study

DHS was provided with significant flexibility to design a modern human capital management system. Its proposed system has both precedent-setting implications for the executive branch and far-reaching implications on how the department is managed. GAO reported in September 2003 that the effort to design the system was collaborative and consistent with positive elements of transformation. In February, March, and April 2004 we provided preliminary observations on the proposed human capital regulations.

Congressional requesters asked GAO to describe the infrastructure necessary for strategic human capital management and to assess the degree to which DHS has that infrastructure in place, which includes an analysis of the progress DHS has made in implementing the recommendations from our September 2003 report.

DHS generally agreed with the findings of our report and provided more current information that we incorporated. However, DHS was concerned about our use of results from a governmentwide survey gathered prior to the formation of the department. We use this data because it is the most current information available on the perceptions of employees currently in DHS and helps to illustrate the challenges facing DHS.

www.gao.gov/cgi-bin/getrpt?GAO-04-790.

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

To date, DHS's actions in designing its human capital management system and its stated plans for future work on the system are helping to position the department for successful implementation. Nonetheless, the department is in the early stages of developing the infrastructure needed for implementing its new human capital management system.

DHS has begun strategic human capital planning efforts at the headquarters level since the release of the department's overall strategic plan and the publication of proposed regulations for its new human capital management system. Strategic human capital planning efforts can enable DHS to remain aware of and be prepared for current and future needs as an organization. However, this will be more difficult because DHS has not yet been systematic or consistent in gathering relevant data on the successes or shortcomings of legacy component human capital approaches or current and future workforce challenges. Efforts are now under way to collect detailed human capital information and design a centralized information system so that such data can be gathered and reported at the departmentwide level.

DHS and Office of Personnel Management leaders have consistently underscored their personal commitment to the design process. Continued leadership is necessary to marshal the capabilities required for the successful implementation of the department's new human capital management system. Sustained and committed leadership is required on multiple levels: securing appropriate resources for the design, implementation, and evaluation of the human capital management system; communicating with employees and their representatives about the new system and providing opportunities for feedback; training employees on the details of the new system; and continuing opportunities for employees and their representatives to participate in the design and implementation of the system.

In its proposed regulations, DHS outlines its intention to implement key safeguards. For example, the DHS performance management system must comply with the merit system principles and avoid prohibited personnel practices; provide a means for employee involvement in the design and implementation of the system; and overall, be fair, credible, and transparent. The department also plans to align individual performance management with organizational goals and provide for reasonableness reviews of performance management decisions through its Performance Review Boards.

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Highlights of GAO-03-488, a report to congressional requesters

March 2003

RESULTS-ORIENTED CULTURES

Creating a Clear Linkage between Individual Performance and Organizational Success

Why GAO Did This Study

The federal government is in a period of profound transition and faces an array of challenges and opportunities to enhance performance, ensure accountability, and position the nation for the future. High-performing organizations have found that to successfully transform themselves, they must often fundamentally change their cultures so that they are more results-oriented, customer-focused, and collaborative in nature. To foster such cultures, these organizations recognize that an effective performance management system can be a strategic tool to drive internal change and achieve desired results.

Based on previously issued reports on public sector organizations' approaches to reinforce individual accountability for results, GAO identified key practices that federal agencies can consider as they develop modern, effective, and credible performance management systems.

www.gao.gov/cgi-bin/getrpt?GAO-03-488.

To view the full report, 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

Public sector organizations both in the United States and abroad have implemented a selected, generally consistent set of key practices for effective performance management that collectively create a clear linkage—"line of sight"—between individual performance and organizational success. These key practices include the following.

1. Align individual performance expectations with organizational goals. An explicit alignment helps individuals see the connection between their daily activities and organizational goals.

2. Connect performance expectations to crosscutting goals. Placing an emphasis on collaboration, interaction, and teamwork across organizational boundaries helps strengthen accountability for results.

3. Provide and routinely use performance information to track organizational priorities. Individuals use performance information to manage during the year, identify performance gaps, and pinpoint improvement opportunities.

4. Require follow-up actions to address organizational priorities. By requiring and tracking follow-up actions on performance gaps, organizations underscore the importance of holding individuals accountable for making progress on their priorities.

5. Use competencies to provide a fuller assessment of performance. Competencies define the skills and supporting behaviors that individuals need to effectively contribute to organizational results.

6. Link pay to individual and organizational performance. Pay, incentive, and reward systems that link employee knowledge, skills, and contributions to organizational results are based on valid, reliable, and transparent performance management systems with adequate safeguards.

7. Make meaningful distinctions in performance. Effective performance management systems strive to provide candid and constructive feedback and the necessary objective information and documentation to reward top performers and deal with poor performers.

8. Involve employees and stakeholders to gain ownership of performance management systems. Early and direct involvement helps increase employees' and stakeholders' understanding and ownership of the system and belief in its fairness.

9. Maintain continuity during transitions. Because cultural transformations take time, performance management systems reinforce accountability for change management and other organizational goals.

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Highlights of GAO-05-69SP

December 2004

HIGHLIGHTS OF A FORUM

Human Capital: Principles, Criteria, and Processes for Governmentwide Federal Human Capital Reform

Why GAO Convened This Forum

There is widespread agreement that the federal government faces a range of challenges in the 21st century that it must confront to enhance performance, ensure accountability, and position the nation for the future. Federal agencies will need the most effective human capital systems to address these challenges and succeed in their transformation efforts during a period of likely sustained budget constraints.

More progress in addressing human capital challenges was made in the last 3 years than in the last 20, and significant changes in how the federal workforce is managed are underway.

On April 14, 2004, GAO and the National Commission on the Public Service Implementation Initiative hosted a forum with selected executive branch officials, key stakeholders, and other experts to help advance the discussion concerning how governmentwide human capital reform should proceed.

www.gao.gov/cgi-bin/getrpt?GAO-05-69SP

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 Participants Said

Forum participants discussed (1) Should there be a governmentwide framework for human capital reform? and (2) If yes, what should a governmentwide framework include?

There was widespread recognition that a "one size fits all" approach to human capital management is not appropriate for the challenges and demands government faces. However, there was equally broad agreement that there should be a governmentwide framework to guide human capital reform built on a set of beliefs that entail fundamental principles and boundaries that include criteria and processes that establish the checks and limitations when agencies seek and implement their authorities. While there were divergent views among the participants, there was general agreement that the following served as a starting point for further discussion in developing a governmentwide framework to advance needed human capital reform.

Principles

- Merit principles that balance organizational mission, goals, and performance objectives with individual rights and responsibilities
- Ability to organize, bargain collectively, and participate through labor organizations
- Certain prohibited personnel practices
- Guaranteed due process that is fair, fast, and final

Criteria

- Demonstrated business case or readiness for use of targeted authorities
- An integrated approach to results-oriented strategic planning and human capital planning and management
- Adequate resources for planning, implementation, training, and evaluation
- A modern, effective, credible, and integrated performance management system that includes adequate safeguards to ensure equity and prevent discrimination

Processes

- Prescribing regulations in consultation or jointly with the Office of Personnel Management
- Establishing appeals processes in consultation with the Merit Systems Protection Board
- Involving employees and stakeholders in the design and implementation of new human capital systems
- Phasing in implementation of new human capital systems
- Committing to transparency, reporting, and evaluation
- Establishing a communications strategy
- Assuring adequate training

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