



Testimony

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HUMAN CAPITAL

Meeting the Governmentwide High- Risk Challenge

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Human Capital: Meeting the Governmentwide High-Risk Challenge

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity this morning to contribute to the Subcommittee's discussion about the urgency of improving the way the federal government manages its most valuable asset—its people. High-performing organizations in the private and public sectors have long understood the relationship between effective “people management” and organizational success.¹ An organization's people—its human capital—are its most critical asset in managing for results. However, the federal government has often acted as if federal employees were costs to be cut rather than assets to be valued. After a decade of government downsizing and curtailed investments in human capital, it is becoming increasingly clear that today's federal human capital strategies are not appropriately constituted to meet the current and emerging needs of the federal government and the nation's citizens.

I would like to address two main points today:

- First, strategic human capital management is a pervasive challenge in the federal government. At many agencies, human capital shortfalls have contributed to serious programmatic problems and risks.
- Addressing the federal government's human capital challenges is a responsibility shared by many parties, including agency leaders, Office of Management and Budget (OMB), Office of Personnel Management (OPM), and Congress. Agency leaders need to make this area a priority. They should apply the tools and flexibilities already available under existing laws and regulations to make substantial progress in managing their human capital without waiting for legislative reform to occur. Ultimately, comprehensive legislative reform in this area will be necessary: however the consensus necessary to make this a reality has yet to be achieved. The valuable information that agencies can generate through their human capital initiatives can become important building blocks in developing and achieving consensus on needed human capital legislative reform.

To help focus on this critically important issue, we recently added strategic human capital management to the list of federal programs and operations we have identified as high risk.² We determined that the federal government's current approach to strategic human capital management met all three of the criteria we had adopted for identifying

¹ See *Human Capital: Key Principles From Nine Private Sector Organizations* (GAO/GGD-00-28, January 31, 2000) and *Transforming the Civil Service: Building the Workforce of the Future—Results of a GAO-Sponsored Symposium* (GAO/GGD-96-35, December 20, 1995).

² *High-Risk Series: An Update* (GAO-01-263, January 2001).

governmentwide high-risk areas.³ First, strategic human capital management challenges are evident at multiple agencies. Second, these challenges affect a significant portion of the government's total budget or other resources. And third, these challenges constitute a deficiency that should be monitored and addressed through individual agency actions as well as through OMB and OPM initiatives, legislative action, and/or congressional oversight.

The leadership provided by this Subcommittee and the Senate Committee on Governmental Affairs (SGA) have been especially important in focusing attention on the federal government's human capital challenges and in helping to lay a bipartisan foundation for eventual human capital legislative reform. Mr. Chairman, your recent report, aptly entitled "Report to the President: The Crisis in Human Capital," captures in compelling terms both the urgency of the government's human capital problems and the opportunity that now exists to make the federal government's "people management" a top priority for both Congress and the new administration.⁴ Likewise, SGA Chairman Fred Thompson's report on human capital, issued as part of a series on management challenges facing the new administration, places human capital at the center of current discussions on how to make the federal government work better.⁵

Widespread inattentiveness to strategic human capital management has created a governmentwide risk—one that is fundamental to the federal government's ability to effectively serve the American people, both now and in the future. As our recent Performance and Accountability Series (PAS) reports make clear, serious human capital shortfalls are eroding the ability of many federal agencies—and threatening the ability of others—to economically, efficiently, and effectively perform their missions.⁶ Simply stated, human capital problems often lead to programmatic problems. The federal government must give far greater attention than it has in the past to marshaling, managing, and maintaining the human capital needed to maximize government performance and ensure accountability for the benefit of the American people.

The landmark federal management reforms of the 1990s addressed most, but not all, of the essential elements of modern performance management: financial management, information technology management, and—through the Government Performance and Results Act (GPRA)—strategic planning, including results-oriented goal-setting and performance measurement. In contrast, human capital management has yet to find the broad conceptual acceptance or political consensus needed for comprehensive

³ Our criteria for determining which federal government programs and functions should be designated high risk, along with criteria for determining governmentwide high risks and for removing high-risk designations, appear in *Determining Performance and Accountability Challenges and High Risks* (GAO-01-159SP, November 2000).

⁴ *Report to the President: The Crisis in Human Capital*, report prepared by Senator George V. Voinovich, Chairman, Subcommittee on Oversight of Government Management, Restructuring, and the District of Columbia, Committee on Governmental Affairs, United State Senate, December 2000.

⁵ *Report of Senator Fred Thompson, Chairman, Committee on Governmental Affairs, on Management Challenges Facing the New Administration, Part 2: Federal Workforce Challenges*, October 2000.

⁶ *Performance and Accountability Series: Major Management Challenges and Program Risks: A Governmentwide Perspective* (GAO-01-241, January 2001). In addition, see the accompanying 21 reports on specific agencies, numbered GAO-01-242 through GAO-01-262.

legislative reform to occur, and in this sense, human capital management remains the missing link in the federal management framework. I believe, however, that comprehensive federal human capital legislative reform will eventually occur. One indication of the gathering momentum is the fact that OMB, OPM, and Congress all have taken steps in the past year to underscore the importance of strategic human capital management, and that some individual agencies have begun to better address their specific human capital challenges.

Mr. Chairman, we believe that Congress will eventually want to address human capital legislative reforms similar to those discussed in your recent report—reforms in such key areas as improving the federal hiring system, providing more flexible pay approaches, enhancing career development and training, and improving employee accountability. However, we also believe that federal agency leaders cannot afford to wait for these kinds of legislative reforms to arrive. Their first priority must be to provide the leadership and take administrative steps to improve their human capital management using the authorities already available under existing laws and regulations. This will not only benefit their agencies, but give decisionmakers in the executive branch and Congress a better understanding of what works and what does not, and allow them to draw lessons from these experiences to build an eventual consensus for the needed comprehensive legislative reforms.

Our view is that the vast majority of the needed improvements in human capital management could be achieved if federal agencies took a more strategic and performance-based approach to managing their workforces—for example, performing effective workforce planning, developing performance goals and measures to address their workforce challenges, and linking employee performance to results. Agency leaders need to commit their organizations to valuing and investing in their employees, empowering and providing them the tools to do their best, and implementing the modern performance management and incentives systems needed to focus their efforts on achieving agency missions and goals. What is needed is leadership, vision, commitment, persistence, and accountability.

Now that strategic human capital management has been added to the list of high-risk areas, it is logical to ask what needs to occur for it to be removed. The answer is two-fold. First, the key players in the human capital area—agency leaders, OMB, OPM, and Congress—need to play their parts in effectuating meaningful and lasting change. Just as modern performance management principles have been brought to federal financial management, information technology management, and strategic planning/performance measurement, they must also be brought to federal human capital management. Second, we will need to see measurable and sustainable improvements in the economy, efficiency, and effectiveness with which the government as a whole and the individual agencies manage their workforces to achieve their missions and goals.

Before I outline some of the challenges that led to our designation of strategic human capital management as a governmentwide high-risk area, and some of the steps that

could be taken to help ameliorate these challenges, I would like to underscore one important point: Although federal human capital management is a high-risk area, federal employees are not the problem. Rather, the problem is the lack of a consistent strategic approach to marshaling, managing, and maintaining the human capital needed to ensure maximum government performance and accountability. The federal government's approach to people management includes a range of outmoded attitudes, policies, and practices that warrant serious and sustained attention. To view federal employees as costs to be cut rather than as assets to be valued would be to take a narrow and shortsighted view—one that is obsolete and must be changed.

Strategic Human Capital Management Is a Pervasive Challenge in the Federal Government

As our studies of private and public sector organizations have shown, high-performing organizations focus on valuing and investing in their employees and on aligning their “people policies” to support organizational performance goals.⁷ However, federal agencies have not consistently made these principles a part of their strategic and programmatic approaches to mission accomplishment. As our PAS and other reports have indicated, federal agencies are experiencing human capital challenges in such key areas as (1) strategic human capital planning and organizational alignment; (2) leadership continuity and succession planning; (3) acquiring and developing staffs whose size, skills, and deployment meet agency needs; and (4) creating results-oriented organizational cultures. Just as important, our recent PAS reports frequently cited agencies' human capital shortfalls as contributing to programmatic problems and risks. These programmatic challenges are likely to go unresolved if agencies do not take steps to ensure that they have sufficient numbers of people in place with the right skills, tools, performance management systems, and incentives to get the job done right.

Strategic Human Capital Planning and Organizational Alignment

High-performing organizations establish a clear set of organizational intents—mission, vision, core values, goals and objectives, and strategies—and then integrate their human capital strategies to support these strategic and programmatic goals. However, under downsizing, budgetary, and other pressures, agencies have not consistently taken a strategic and results-oriented approach to human capital planning.

Today, human capital challenges are common across the federal landscape. (See attachment I.) For example, at the National Aeronautics and Space Administration (NASA), internal studies found that a one-third reduction in the space shuttle program's workforce had affected NASA's ability to safely support the shuttle's planned flight rate.⁸ At the Department of Defense (DOD), where a Defense Science Board task force found

⁷See *Human Capital: Key Principles From Nine Private Sector Organizations* (GAO/GGD-00-28, Jan. 31, 2000); and *Transforming the Civil Service: Building the Workforce of the Future—Results of a GAO-Sponsored Symposium* (GAO/GGD-96-35, Dec. 20, 1995).

⁸ *Major Management Challenges and Program Risks: National Aeronautics and Space Administration* (GAO-01-258, January 2001).

that “there is no overarching framework” for planning DOD’s future workforce,⁹ civilian downsizing has led to skills and experience imbalances that are jeopardizing acquisition and logistics capacities.¹⁰ In addition, the State Department is having difficulty recruiting and retaining Foreign Service Officers, as well as staff for counternarcotics efforts. Also, staffing shortfalls in the procurement area have hampered U.S. Agency for International Development (USAID) reconstruction assistance in the wake of natural disasters.¹¹ Although many agencies have begun to recognize the importance of human capital to mission accomplishment and have taken steps to align their human capital with their missions, goals, and other needs, it is clear that many agencies still find themselves facing serious human capital challenges that will require the sustained attention and commitment of agency leaders.

GPRA’s strategic planning requirements provide a useful framework for agencies to integrate their human capital strategies with their strategic and programmatic planning—and in particular, to identify the workforce size, skills mix, and deployment needed for mission accomplishment and to create strategies to fill the gaps. However, while agencies’ fiscal year 2001 annual performance plans all included at least some discussion of human capital, the discussions varied widely in scope and specificity. Some agencies’ plans provided detailed goals, objectives, and strategies for human capital management, while others merely noted the importance of human capital in general terms. In either case, agencies will need to follow up through effective implementation and assessment to determine whether their plans lead to improvements in human capital management and programmatic outcomes.

Leadership Continuity and Succession Planning

Because the transition to modern performance management will entail changes in management systems and organizational cultures that will take years to implement, it will require long-term commitment on the part of agency leaders and managers. However, whether at the top leadership levels or among managers, many agencies are plagued by turnover that could hamper these efforts. For example, the Health Care Financing Administration (HCFA), which administers the multibillion dollar Medicare program, has had 19 Administrators or Acting Administrators in its 24 years of existence—an inhibiting factor in the implementation of long-term Medicare initiatives and the pursuit of a consistent management strategy.¹² At the Department of Energy (DOE), the office responsible for the Stockpile Stewardship Program has seen the proportion of offices vacant or with acting managers rise from 17 percent in 1996 to almost 65 percent in 2000. This high turnover may help account for the fact that the

⁹ *Final Report of the Defense Science Board Task Force on Human Resources Strategy*, Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, February 2000, p. viii.

¹⁰ *Major Management Challenges and Program Risks: Department of Defense* (GAO-01-247, January 2001).

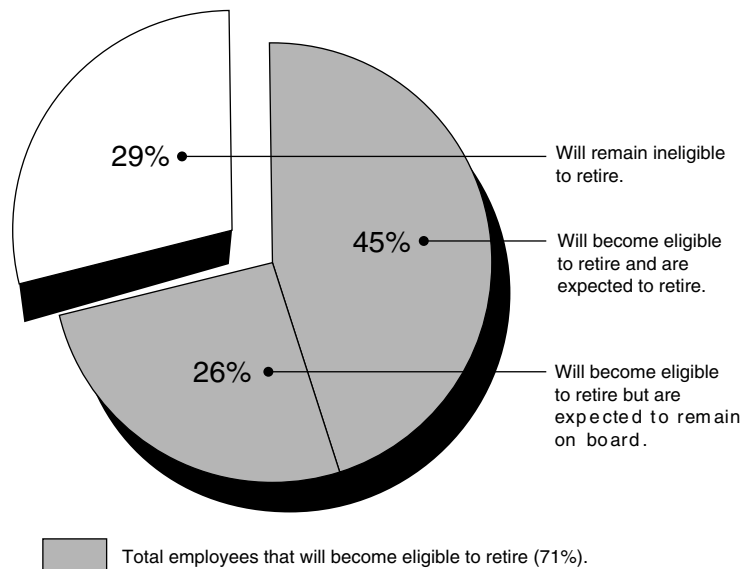
¹¹ *Major Management Challenges and Program Risks: Department of State* (GAO-01-252, January 2001).

¹² *Major Management Challenges and Program Risks: Department of Health and Human Services* (GAO-01-244, January 2001).

same programmatic concerns in the nuclear weapons stockpiling program are cited by GAO year after year.¹³

We have noted that successful organizations know the importance of fostering a committed leadership team and providing reasonable continuity through succession planning and executive development. The customarily high turnover rate among political appointees has been a long-standing issue at the upper levels of the executive branch.¹⁴ But succession planning for career executives—always a challenge for federal agencies—looms especially large as the current corps of Senior Executive Service (SES) members approaches retirement age.¹⁵ (See fig. 1.) The retirement eligibility trends suggest a loss in leadership continuity, institutional knowledge, and expertise in the SES ranks—impacts that will be felt to varying degrees among federal agencies and occupations. Agencies need to aggressively pursue the comprehensive SES succession planning and executive development actions needed to address this issue.

Figure 1: Proportion of Career SES Members Projected to Become Eligible to Retire, and Those Projected to Retire, by Fiscal Year 2005



Note: Projections are for September 30, 2005 and are calculated on the basis of the 5,981 career SES members employed as of September 30, 1998.

Source: GAO calculations based on OPM data.

¹³ *Major Management Challenges and Program Risks: Department of Energy* (GAO-01-246, January 2001).

¹⁴ *Political Appointees: Turnover Rates in Executive Schedule Positions Requiring Senate Confirmation* (GAO/GGD-94-115FS, Apr. 21, 1994).

¹⁵ See *Senior Executive Service: Retirement Trends Underscore the Importance of Succession Planning* (GAO/GGD-00-113BR, May 12, 2000).

A related leadership issue involves executive compensation. Federal executives must often compete for talent against private sector organizations that compensate their executives at levels far above what the federal government offers. Moreover, the existing cap on SES pay has increased pay compression between the maximum and lower SES pay levels, meaning that federal executives at different levels of responsibility can receive identical salaries. Further, pay compression can create situations in which the difference between executive and nonexecutive pay is so small that the financial incentive for managers to apply for positions of greater responsibility may disappear.

Acquiring and Developing Staffs Whose Size, Skills, and Deployment Meet Agency Needs

High-performing organizations identify their current and future human capital needs—including the appropriate number of employees, the key competencies for mission accomplishment, and the appropriate deployment of staff across the organization—and then create strategies for identifying and filling the gaps.

Faced with growing retirement eligibilities—some 35 percent of the fiscal year 1998 federal workforce will be eligible for regular retirement by 2006—agencies may have difficulties replacing the loss of skilled and experienced staff. Moreover, some agencies face imposing challenges in attempting to fill certain mission-critical occupations because of increasing competition in the labor market. For example, the Nuclear Regulatory Commission (NRC) must deal with declining university enrollments in nuclear engineering and other fields related to nuclear safety.¹⁶ A nationwide nursing shortage threatens efforts by the Department of Veterans Affairs (VA) to improve performance at VA hospitals, thereby putting veterans' care at risk. Further, the Department of the Interior and the U.S. Forest Service must maintain their firefighting capacity during catastrophic events, even as experienced fire personnel retire and prove increasingly difficult to replace.¹⁷

In confronting staffing challenges such as these, agencies must engage in effective recruiting and succession planning strategies. This includes attracting and retaining skilled and knowledgeable individuals whose performance meets or exceeds expectations, regardless of their age. All decisions with regard to recruiting and retention—as in every area of human capital management—must be based on clearly defined, well-documented, consistently applied, transparent criteria that are nondiscriminatory and merit-based. To deal with their recruiting and retention challenges, agencies also need to identify and use the recruiting, hiring, and retention flexibilities available to them. For example, under delegation agreements with OPM, agencies can conduct their own competitive examining for all positions; they can use commercial recruiting firms and nonprofit employment services to recruit job candidates; they can provide lump-sum recruiting or relocation bonuses to employees in

¹⁶ *Major Management Challenges and Program Risks: Nuclear Regulatory Commission* (GAO-01-259, January 2001).

¹⁷ *Major Management Challenges and Program Risks: Department of the Interior* (GAO-01-249, January 2001).

positions that would otherwise be difficult to fill; and, under regulations recently issued by OPM, they can help repay new employees' educational loans. Similarly, to retain needed skills, agencies have discretionary authority to provide retention allowances of up to 25 percent of salary for individual employees, and can request of OPM authority to provide similar retention allowances for groups or categories of employees.

It is also crucial for agencies to invest in training and developing staff to meet agencies' specific performance needs. In the 1990s, changes in the law added considerable flexibility to the training federal employees may receive. However, anecdotal evidence suggests that during the same period, as agencies tried to save on workforce-related costs during downsizing, they cut back not just on staff but on other human capital investments, such as the training and professional development programs they would need if their smaller workforces were to compensate for institutional losses in skills and experience. Agencies we reported on last year faced a number of challenges in this area, including a lack of staff and resources to develop training and development programs to ensure that their employees had the competencies needed to perform mission-critical activities.¹⁸ A particularly critical area on which better investments in training should be focused is contract management, where agencies must have enough skilled staff on board to oversee the quality, cost, and timeliness of products and services delivered by third parties—and where agencies such as DOE, HCFA, and the Department of Housing and Urban Development (HUD), among others, have experienced costly performance problems.¹⁹

Creating Results-Oriented Organizational Cultures

In many government entities, the transition to modern performance management—and along with it, to strategic human capital management—will require a cultural transformation. Hierarchical management approaches will need to yield to partnerial approaches. Process-oriented ways of doing business will need to yield to results-oriented ones. And “siloes” or (stovepiped) organizations will need to become integrated organizations if they expect to make the most of the knowledge, skills, and abilities of their people. Agencies that expect to make the best use of their human capital will need to establish a strong performance culture—including appropriate performance measures and rewards and a focus on continuous learning and knowledge management—that supports employees in the accomplishment of their organizational missions.

Many federal agencies lack organizational cultures that promote high performance and appropriate accountability. In fact, the results of our 2000 survey of federal managers indicated that in some key areas, agencies may be losing ground in their efforts to build

¹⁸ *Human Capital: Design, Implementation, and Evaluation of Training at Selected Agencies* (GAO/T-GGD-00-131, May 18, 2000).

¹⁹ *Major Management Challenges and Program Risks: Department of Energy* (GAO-01-246, January 2001), *Major Management Challenges and Program Risks: Department of Health and Human Services* (GAO-01-247, January 2001), and *Major Management Challenges and Program Risks: Department of Housing and Urban Development* (GAO-01-248, January 2001).

organizational cultures that focus on results.²⁰ For example, in one important area—use of performance information for program management activities—a significantly lower percentage of managers reported that they were using such information to a great or very great extent in 2000 than in 1997 for five out of eight key management activities we asked about. (See table 1.) Overall, the survey findings underscored the importance of having agency leaders and managers with the skills and commitment to drive cultural change.

Table 1: Percentage of Federal Managers who Reported Using Information Obtained From Performance Measurement to a Great or Very Great Extent for Various Management Activities

Management activity	1997 Survey^a	2000 Survey^a	Difference
Setting program priorities	66%	56%	-10% ^b
Allocating resources	62	53	-9 ^b
Adopting new program approaches or changing work processes	66	51	-15 ^b
Coordinating program efforts with other internal or external organizations	57	43	-14 ^b
Refining program performance measures	52	44	-8
Setting new or revising existing performance goals	58	51	-7
Setting individual job expectations for my staff	61	51	-10 ^b
Rewarding staff I manage or supervise	53	53	None
Developing and managing contracts	N/A ^c	38	N/A ^c

^aPercentages based on those respondents answering on the extent scale.

^bStatistically significant difference.

^cNot available; question not asked in 1997.

Source: GAO survey data.

Organizational cultures can be a barrier to high performance and make management improvement efforts more difficult. For example, a stovepiped culture at the Federal Aviation Administration (FAA) has been one of several underlying causes of acquisition problems in the agency’s multibillion dollar modernization program, which has

²⁰The survey was a follow-up to one conducted in 1996-1997. See *Managing for Results: Federal Managers’ Views Show Need for Ensuring Top Leadership Skills* (GAO-01-127, Oct. 20, 2000), and *The Government Performance and Results Act: 1997 Governmentwide Implementation Will Be Uneven* (GAO/GGD-97-109, June 2, 1997).

experienced cost overruns, schedule delays, and significant performance shortfalls.²¹ Cultural issues have also been linked to long-standing security problems at DOE weapons laboratories, and to intractable waste, fraud, abuse, and mismanagement problems in the Social Security Administration's (SSA) high-risk Supplemental Security Income program.²²

Agency leaders and managers have a number of strategies available to them to help them steer their organizational cultures to support agency goals. These include modern performance management and incentive approaches—directed at either individual employees or teams—to help empower and motivate staff, reward high performance, and ensure accountability. In 1995, the federal government's performance appraisal and rewards policies were substantially deregulated, with the express intent, OPM reported, of promoting decentralized employee performance management systems that conform to agencies' specific missions and cultures. Agencies have more flexibility than in previous times to develop and, with OPM approval, implement performance appraisal systems to meet their specific goals and needs. For example, performance appraisals may now incorporate performance goals and objectives measured at team and organizational levels, and take group and organizational performance into account when assigning ratings above "Unacceptable." Flexibilities such as these are important as agencies try to establish a "line of sight" between individual employees and their agencies' organizational goals and objectives. However, agencies we have studied have struggled to link employee performance expectations to agency goals; further, many have reported that they do not know whether their incentive programs are effectively motivating their employees.²³

Human Capital Problems Will Require the Sustained Commitment of Executive and Legislative Branch Leaders

As leaders and managers in the federal government have become more acutely aware of challenges facing the government in the human capital area, some have taken steps to improve their approaches to building and maintaining human capital. However, agencies' human capital problems are invariably difficult and the associated programmatic risks continue to take their toll. The key players in the human capital area—agency leaders, OMB, OPM, and Congress—all need to play their parts in creating changes.

Agency Leaders Need to Focus on Human Capital

The key change for agency leaders who hope to improve their agencies' human capital management is to focus on people as a strategic asset. Workforce planning is an essential step. Agencies need to determine their current and future workforce needs,

²¹ *Major Management Challenges and Program Risks: Department of Transportation* (GAO-01-253, January 2001).

²² *Major Management Challenges and Program Risks: Social Security Administration* (GAO-01-261, January 2001).

²³ *Human Capital: Using Incentives to Motivate and Reward High Performance* (GAO/T-GGD-00-118, May 2, 2000).

assess how their current and anticipated future workforce compares with these needs, and develop effective strategies to fill the gaps. A useful tool for assessing overall human capital management is GAO's human capital framework, which identifies a number of human capital elements and underlying values that are common to high-performing organizations.²⁴ (See attachment II.) As our framework makes apparent, agencies must address a range of interrelated elements to ensure that their human capital approaches effectively support mission accomplishment. Although no single recipe exists for successful human capital management, high-performing organizations recognize that all human capital policies, practices, and investments must be designed, implemented, and assessed by the standard of how well they support the organization's vision of what it is and where it wants to go.

Although some steps that agencies might want to pursue would require legislative actions, there is nothing to prevent agencies from including in their strategic and programmatic planning the fundamental elements of human capital management that we and others have identified.²⁵ Rather than wait for reforms to arrive, agency leaders must take the initiative to be more competitive in attracting new employees with critical skills; in creating the kinds of performance incentives and training programs that motivate and empower employees and in building management-labor relationships that are based on common interests and the public trust.

Agencies need to become better informed about human capital management. They need to learn more about what is being done in the human capital area by agencies that have taken the initiative—what approaches have worked, what have not, and what lessons can be drawn from others' experiences and used to improve their organizations' approaches to managing their human capital. They must also learn more about the tools and flexibilities available to them and make better use of them than they have in the past. One publication that OPM developed, the *HR Innovator's Tool Kit*, includes nearly 100 tools and flexibilities at agencies' disposal, ranging from recruiting and relocation bonuses to retention allowances.²⁶ Agency leaders can and must take steps immediately to identify their human capital needs and create informed, forward-looking strategies to fill them.

As we noted in our PAS reports, some of the agencies whose human capital problems were mentioned earlier—such as NASA, HCFA, and NRC—already have efforts under way to address them. Similarly, OPM has cited numerous examples of effective human capital initiatives, among them the following²⁷

- The Bureau of the Census has used technology to reduce hiring time. The agency has an electronic hiring system that provides managers with desktop, web-based access

²⁴ *Human Capital: A Self-Assessment Checklist for Agency Leaders* (GAO/OCG-00-14G, September 2000).

²⁵ See, for example, *Building the Workforce of the Future to Achieve Organizational Success*, National Academy of Public Administration, December 1999.

²⁶ *HR Innovators' Tool Kit*, U.S. Office of Personnel Management.

²⁷ Letter from OPM to GAO dated Dec. 11, 2000.

and an electronic applicant tracking feature that allows managers to see images of applicant resumes and transcripts within 24 hours of receipt. According to OPM, the electronic hiring system has helped the Census Bureau reduce the time required to fill computer specialist, statistician, and mathematical statistician positions from 6 months to as little as 3 days. Since September 1998, the agency has filled 1,000 vacancies using this process.

- The State Department is using existing pay flexibilities to create incentives for learning. It pays retention allowances ranging from 5 to 15 percent to certain information technology workers who obtain job-related degrees and certifications. OPM reported that after 1 year of operation, this program has helped to significantly reduce turnover and increase the skills base of State's information technology workforce.
- The Veterans Affairs Healthcare Network for Upstate New York is involving its employees in organizational goal-setting. It has taken an innovative approach to creating a clear "line of sight" between employees and organizational goals. Each employee helps to develop work unit "stretch" goals tied to accomplishing the agency's strategic goals. These goals are always at least 10 percent higher than the consensus expectation for the amount of work that should be accomplished. OPM has reported that, since the program began, the Upstate New York program has reduced costs per patient, improved customer service, and attracted more patients.

We have not examined these examples ourselves, so I cannot with certainty endorse them as "best practices." However, it is encouraging whenever we learn of agencies that are taking innovative steps to meet their human capital needs. As I mentioned earlier, for agencies to pursue human capital strategies that effectively support their specific needs and circumstances, they must identify and use the tools and flexibilities available to them under current law. As we have previously reported, some of the barriers to effective strategic human capital management in the federal government do not stem from law or regulation but are imposed by agencies on themselves. Sometimes, the source is a lack of understanding of the prerogatives that agencies have, and sometimes it is outmoded attitudes about the basic ways in which people ought to be managed.²⁸ However, changing times demand new approaches, and agencies need to be innovative and energetic in their use of the human capital tools and flexibilities available to them.²⁹

OMB and OPM Must Be Leaders

It is clear that OMB and OPM have substantial roles to play in fostering a more results-oriented approach to strategic human capital management across government.

²⁸*Transforming the Civil Service: Building the Workforce of the Future—Results of a GAO-Sponsored Symposium* (GAO/GGD-96-35, Dec. 20, 1995).

²⁹See *HR Innovators' Tool Kit*, U.S. Office of Personnel Management.

OPM has begun stressing to agencies the importance of integrating strategic human capital management into agency planning.³⁰ OPM has also been focusing more attention on developing tools to help agencies. For example, it is developing a workforce planning model, with associated research tools, and has launched a web site to facilitate information sharing about workforce planning issues. OPM has also brought attention to the need for integrating human capital professionals into agencies' planning processes in acknowledging that a gap exists between the roles that federal human capital professionals need to perform—such as those of technical expert and strategic partner—and those that they have traditionally been given.³¹ Further, OPM recently revised the SES performance management regulations so that a balanced scorecard of customer satisfaction, employee perspectives, and organizational results will be used by agencies to evaluate executive performance. In addition, OPM has recently helped to achieve incremental legislative reforms to help attract and retain federal employees, such as compensation flexibility for selected specialist positions and employee benefit enhancements.

I would suggest two areas in which OPM could make substantial additional contributions. The first would be in reviewing existing OPM regulations and guidance to determine their continued relevance and utility. OPM could ask of every major rule and regulation: Is it up-to-date? Is it clear and understandable? Does it provide agencies with the flexibilities they need while incorporating adequate protections to employees? The second area would be in making human capital flexibilities and best practices more widely known to the agencies, and in taking fullest advantage of OPM's ability to facilitate information-sharing and outreach to human capital managers throughout the federal government. An example of such an effort was OPM's Workforce Planning Conference, held in September 2000. With this as in all such leadership and information-sharing initiatives, the sustained commitment and attention of OPM will be critical to making a real difference in the way federal agencies manage their human capital.

Characterizing the most appropriate mission and role for OPM, and defining the most effective tools and strategies for accomplishing its goals in a changing civil service, have been long-standing issues facing the agency.³² OPM's recent efforts to communicate the importance of aligning human capital with results clearly reflect the important role it can play in promoting human capital improvements. It is likely that OPM will continue moving from "rules to tools," and that its most valuable contributions in the future will come less from traditional compliance activities than from its initiatives as a strategic partner to the agencies.

³⁰See OPM's *Strategic Human Resources Management: Aligning With the Mission*, U.S. Office of Personnel Management, September 1999.

³¹*The HR Workforce: Meeting the Challenge of Change*, U.S. Office of Personnel Management, January 2000. See also *A Call to Action: A Coalition on the Future of the Federal Human Resource Management Profession*, Federal Section of the International Personnel Management Association, September 2000.

³²See *Observations on the Office of Personnel Management's Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance Plan* (GAO/GGD-00-156R, June 30, 2000); *Civil Service Reform: Changing Times Demand New Approaches* (GAO/T-GGD-96-31, October 12, 1995); and *Managing Human Resources: Greater OPM Leadership Needed to Address Critical Challenges* (GAO/GGD-89-19, January 19, 1989).

While OPM has recently done more to promote strategic human capital management, OMB has played a limited role in this key area to date. OMB's role in setting governmentwide management priorities and defining resource allocations will be critical to inducing agencies to integrate strategic human capital management into their core business processes. In 2000, two key steps were taken that reflected OMB's potential importance in this area. First, the President's fiscal year 2001 budget gave new prominence to human capital management by making "align Federal human resources to support agency goals" a Priority Management Objective. Second, a June 2000 presidential memorandum directed the heads of the executive branch departments and agencies to integrate human resources management into their planning, budgeting, and mission evaluation processes. The memo also directed agencies to include specific human resource management goals and objectives in their strategic and annual performance plans, beginning October 1, 2000. OMB's latest Circular No. A-11 guidance on preparing annual performance plans now states that agencies' fiscal year 2002 annual performance plans should set goals in such areas as recruitment, retention, training, appraisals linked to program performance, workforce diversity, streamlining, and family-friendly programs.

These actions by OMB will prove to be useful steps if they result in a better governmentwide focus on the strategic importance of human capital. What is now required is the sustained and forceful leadership to make the promise of these initiatives a reality. This will require much greater attention by OMB to the "M" side of its mission, and specifically to agencies' strategic human capital management. OMB has the ability to ensure that agencies view strategic human capital management as a critically important element in their overall strategic planning, performance management, and budgeting efforts. Important areas for attention include benchmarking and best practices efforts within the executive branch and greater attention during resource allocation to the linkages between agency missions and the human capital needed to pursue them. OMB budget examiners can help ensure that agencies factor in their human capital needs and answer critical questions, such as whether current resources are sufficient and whether they are being allocated in the manner best suited to promote mission accomplishment. OPM can help promote human capital management improvements, but OMB must be directly involved in this area, given its importance from both a mission accomplishment and resource allocation perspective.

Congressional Leadership Will Be Critical to Improving Human Capital Governmentwide

Leadership on the part of Congress will be critical if governmentwide improvements in strategic human capital management are to occur. To raise the visibility of the human capital issue and to move toward a consensus on legislative reforms, commitment to people as an urgent federal management concern must come from both parties in both houses of Congress. As I noted earlier, among the most encouraging developments in this regard have been the efforts of this Subcommittee and SGA to draw attention to

human capital issues, including no less than six pertinent hearings by this Subcommittee in the past 2 years.

Through its creation over the past decade of the performance management framework, Congress has been the institutional champion for improving the management of the federal government. On an agency-specific basis as well, support from Congress has been indispensable to instituting and sustaining management reforms. Congress has opportunities available through its confirmation, oversight and appropriations, and legislative roles to ensure that agencies recognize their responsibilities and have the needed tools to manage their people for results.

First, Congress can draw wider attention to the critical role of human capital in the performance management paradigm. One means of focusing on the critical link between people management and program results is through the appointment and confirmation process, where the Senate has an opportunity to make clear its commitment to sound federal management and to explore what prospective nominees plan to do to ensure that their agencies recognize and enhance the value of their people.³³

As part of the oversight and appropriations processes, Congress can examine whether agencies are managing their human capital to improve the effectiveness, efficiency, and economy of their programs and deliver better performance for the American people. Congress can also encourage more agencies to identify the flexibilities available to them under current law and to reexamine their approaches to strategic human capital management in the context of their individual missions, goals, and other organizational needs.

Further, Congress can play a defining role in determining the scope and appropriateness of additional human capital flexibilities agencies may seek through legislation. For agencies that request legislative exceptions from current civil service constraints, Congress can require that they make a sound business case based on rational and fact-based analyses of their needs, the constraints under which they presently operate, and the flexibilities available to them. For example, before we submitted human capital legislative proposals for GAO last year, we applied the due diligence needed not only to identify in our own minds the flexibilities we needed to better manage our human capital, but also to give Congress a clear indication of our needs, our rationale, and the steps we were committed to taking in order to maximize the benefits while managing the risks. The process we followed included a thorough analysis of our human capital needs and flexibilities, clear standards for implementation, and multiple opportunities for employee involvement and feedback. The legislative flexibilities we eventually received, tailored as they were to our specific needs, may not be appropriate for other federal employers. However, the process we followed in identifying and making a sound

³³Toward this end, we recently developed a set of questions for political appointees that the Senate may use during the confirmation process. See *Confirmation of Political Appointees: Eliciting Nominees' Views on Leadership and Management Issues* (GAO/GGD-00-174, Aug. 11, 2000).

business case for these flexibilities is one that would be sensible for other agencies to follow.

To address the federal government’s emerging human capital challenges, Congress may wish to consider a variety of targeted investments or new flexibilities while maintaining appropriate safeguards to prevent abuse. Our view is that any legislative proposals involving federal human capital management should be considered in light of the same modern performance management principles that Congress applied in reforming federal financial, information technology, and results-oriented management. In short, will such changes help federal agencies improve their ability to economically, efficiently, and effectively serve the American people? For example, when Congress recently passed amendments to legislation to enable federal agencies to provide some education-related debt relief in exchange for government service, it recognized that for federal agencies to maintain the diverse and knowledgeable workforce they need for mission accomplishment, they must be able to compete effectively with the private sector for educated recruits.

Additional legislative actions could be considered, including the areas in which you, Mr. Chairman, made proposals in your report, such as improving the federal hiring system, providing more flexible pay approaches, enhancing career development and training, and improving employee accountability. A variety of proposals could be considered that might help the federal government compete for new employees and better manage the ones it has. These are just examples for the sake of discussion, but they reflect a range of areas in which opportunities exist to better equip federal employers. For example, Congress might address federal pay compression, perhaps by unlinking federal executive compensation from congressional pay, or perhaps by putting a higher cap on executive performance bonuses. Congress might address some of the succession planning issues associated with the rise in retirement eligibilities by considering phased retirement (also called “retreat into retirement”), whereby employees with needed skills could change from full-time to part-time employment rather than retire all at once. Congress could explore greater flexibilities for federal agencies to enhance their skills mix by leveraging the expertise of private sector employees through innovative executive exchange programs, fellowships, or other arrangements with business or academic professionals. Congress might even consider legislative action to allow federal employees who travel on government business to keep their “frequent flyer” miles—a small benefit but one that private sector employers commonly provide their people as part of a mosaic of competitive employee benefits.

Ultimately, Congress may wish to consider comprehensive legislative reform in the human capital area to address the missing link in the performance management portfolio, giving agencies the tools and reasonable flexibilities they need to manage effectively while providing appropriate safeguards to prevent abuse. As part of this effort, Congress may also wish to consider the extent to which traditional “civil service” approaches—structures, oversight mechanisms, rules and regulations, and direction-

setting—make sense for a government that is largely a knowledge-based enterprise that has adopted and is now implementing modern performance management principles.

Summary

People are the federal government’s most valuable asset in managing for results. The importance of human capital is underscored by the numerous links we have identified between agencies’ human capital shortfalls and their programmatic challenges. As noted earlier, a consensus has yet to emerge on broad-based federal human capital legislative reform. However, even in the absence of fundamental legislative reform, federal agencies need to take a more strategic and integrated approach to human capital management and to maximize their efforts in such areas as workforce planning, recruiting and retention, succession planning, training and professional development, and performance management and rewards, within the context of current law. Just as modern performance management principles have been brought to federal financial management, information technology management, and results-oriented goal-setting and performance measurement, so they must be brought to federal human capital management. Congress, OMB, OPM, the agencies, and other interested parties should work together to make this happen.

Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions you or other Members of the Subcommittee may have at this time.

Contact and Acknowledgments

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Examples of Federal Agencies with Human Capital Challenges

Agency	Human capital challenges
Agriculture	Organizational culture problems, including resistance from affected USDA agencies and employees, have hampered departmentwide reorganization and modernization efforts. Further, the nation's food safety system, in which USDA plays a major role, continues to suffer from inconsistent oversight, poor coordination, and inefficient deployment of resources.
Bureau of Indian Affairs	Untrained and inexperienced staff hamper effective management of \$3 billion in Indian trust funds.
Commerce	A lack of sufficient numbers of experienced staff with the right expertise limits the ability of Commerce and two other trade agencies to monitor and enforce trade agreements.
DOD	In the past two years, the military services have struggled to meet recruiting goals. Attrition among first-time enlistees has reached an all-time high. The services face shortages among junior officers, and problems in retaining intelligence analysts, computer programmers, and pilots. On the civilian side, skills and experience imbalances following downsizing are jeopardizing acquisitions and logistics capabilities.
Energy	Headquarters and field staff have lacked contract management skills to oversee large projects, such as the cleanup of radioactive and hazardous waste sites.
EPA	EPA has not yet implemented any systematic means of determining the right size, skills needs, or deployment of its workforce to carry out its mission and achieve its strategic goals and objectives, despite the demand for new skills due to technological changes and the shift in EPA's regional environmental responsibilities to the states, as well as growing retirement eligibilities in its workforce.
FAA	Air traffic control modernization is fraught with cost, schedule, and performance problems due in part to an organizational culture that impaired the acquisition process.

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Agency	Human capital challenges
Health Care Financing Administration	Medicare’s leadership problems include the lack of any official whose sole responsibility it is to run the program. Further, frequent leadership changes at HCFA have hampered long-term Medicare initiatives and the pursuit of a consistent management strategy. HCFA’s workforce lacks skills needed to meet recent legislative requirements. The mismatch between HCFA’s administrative capacity and its mandate could leave Medicare unprepared to handle future population growth and medical technology advances.
HUD	As HUD’s reorganization moves into its final phases, workload imbalances pose programmatic challenges to several specialty centers and field offices. Single family mortgage insurance programs administered by HUD’s Federal Housing Administration have been marked by a number of human capital challenges, including insufficient staff. Further, insufficient or inexperienced staff led to problems in quality assurance reviews for 203(k) home rehabilitation loans and oversight of appraisers and mortgage lenders.
Immigration and Naturalization Service	Lack of staff to perform intelligence functions and unclear guidance for retrieving and analyzing information hamper efforts to combat the growing problem of alien smuggling.
Interior and U.S. Forest Service	Difficulties replacing experienced fire personnel threaten firefighting capabilities during catastrophic events.
IRS	IRS lacks reliable cost and operational information to measure the effectiveness of its tax collection and enforcement programs and to judge whether it is appropriately allocating its staff resources among competing management priorities.
NASA	Staff and skills losses following downsizing pose potentially serious problems for the safety and planned flight rate of the space shuttle.
National Park Service	Historically, the Park Service’s decentralized priority-setting and accountability systems left it without the means to monitor progress toward achieving its goals or hold park managers accountable for the results of park operations. The park concessions program continues to face management problems, including inadequate qualifications and training of the agency’s concession specialists and concessions contracting staff. Insufficient fire safety training has contributed to fire safety risks at visitor centers, hotels, and other national park buildings.

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Agency	Human capital challenges
Nuclear Regulatory Commission	NRC’s organizational culture is struggling with the agency’s new “risk-informed” regulatory approach. Further, NRC’s ability to maintain the skills needed to achieve its mission and fill the gaps created by growing retirement eligibilities could be threatened by the decline in university enrollments in nuclear engineering and other fields related to nuclear safety.
Pension Benefit Guaranty Corporation	Because the agency did not adequately link its contracting decisions to long-term strategic planning, it may not have the cost-effective mix of contractor and federal employees needed to meet future workload challenges. Further, PBGC employees who monitor contractors lack adequate guidance and policies essential to monitoring contractor performance.
SSA	Increasing demand for services, imminent retirement of a large part of its workforce, changing customer expectations, and mixed success in past technology investments will challenge SSA’s ability to meet its service delivery demands, which include faster and more accurate benefit claims determinations and increased emphasis on returning the disabled to work.
State	Issues related to the quality of life at overseas posts, career development opportunities, and talent management are hampering recruitment and retention of Foreign Service Officers. Efforts to determine the right size and composition of overseas posts have begun, but State faces challenges in aligning its workforce with new economic, political, security, and technological requirements. Also, staffing shortfalls are hampering counternarcotics programs and efforts to combat visa fraud.
USAID	Staffing shortfalls in the procurement area have hampered the agency’s ability to initiate and monitor contracts, thus delaying reconstruction assistance in the wake of natural disasters in Central America and the Caribbean.
Veterans Affairs	A national nursing shortage could adversely affect VA’s efforts to improve patient safety in VA facilities and put veterans at risk. Further, VA’s training and recruitment programs may not be adequate to ensure a sufficient workforce of competent claims processors, which would likely undermine efforts to improve current problems of claims processing backlogs and errors.

Source: GAO’s *Performance and Accountability Series*, numbered GAO-01-241 to 262, January 2001.

ATTACHMENT II

GAO's Human Capital Framework

GAO's Human Capital Framework

Strategic Planning: Establish the agency's mission, vision for the future, core values, goals and objectives, and strategies.

- Shared vision
- Human capital focus

Organizational Alignment: Integrate human capital strategies with the agency's core business practices.

- Improving workforce planning
- Integrating the "HR" function

Leadership: Foster a committed leadership team and provide for reasonable continuity through succession planning.

- Defining leadership
- Building teamwork and communications
- Ensuring continuity

Talent: Recruit, hire, develop, and retain employees with the skills needed for mission accomplishment.

- Recruiting and hiring
- Training and professional development
- Workforce deployment
- Compensation
- Employee-friendly workplace

Performance Culture: Empower and motivate employees while ensuring accountability and fairness in the workplace.

- Performance management
- Performance incentives
- Continuous learning and improvement
- Managers and supervisors
- Job processes, tools, and mission support
- Information technology
- Inclusiveness
- Employee and labor relations

Source: *Human Capital: A Self-Assessment Checklist for Agency Leaders* (GAO/OCG-00-14G, September 2000).

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