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OFFICE OF
PERSONNEL
MANAGEMENT

Key Lessons Learned
to Date for
Strengthening
Capacity to Lead and
Implement Human
Capital Reforms



G A O

Accountability * Integrity * Reliability



Highlights of [GAO-07-90](#), a report to congressional requesters

Why GAO Did This Study

As the agency responsible for the federal government's human capital initiatives, the Office of Personnel Management (OPM) must have the capacity to successfully guide human capital transformations necessary to meet the governance challenges of the 21st century. Given this key role, GAO was asked to assess OPM's capacity to lead further reforms. In June 2006, GAO testified on several management challenges that OPM faces. This report—the second in a series—supplements that testimony and, using the new senior executive performance-based pay system as a model for understanding OPM's capacity to lead and implement reform, identifies lessons learned that can inform future reforms. GAO analyzed relevant laws and documents, and obtained views from the Chief Human Capital Officers (CHCO) Council and human resource directors, the Office of Management and Budget (OMB) staff, and OPM officials.

What GAO Recommends

GAO is making recommendations to the Director of OPM to improve OPM's capacity for future reforms by reexamining agencywide skills, and to address issues specific to the senior executives' pay systems, such as sharing best practices and tracking progress towards goals. In commenting on a draft of this report, OPM stated it has made progress toward achieving its operational and strategic goals, but neither agreed nor disagreed with GAO's recommendations. www.gao.gov/cgi-bin/getrpt?GAO-07-90.

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

OFFICE OF PERSONNEL MANAGEMENT

Key Lessons Learned to Date for Strengthening Capacity to Lead and Implement Human Capital Reforms

What GAO Found

The congressionally authorized senior executive performance-based pay system, implemented in 2004, provides an opportunity to learn from experiences gained and apply those lessons to the design and implementation of future human capital reforms. Under the performance-based system, before an agency can receive the new pay flexibilities, OPM, with concurrence from OMB, must certify that the agency's appraisal system meets certain criteria. OPM is likely to play a similar leadership and oversight role for future reforms.

Lessons Learned from the Performance-based System and Other Human Capital Initiatives

Ensure internal OPM capacity to lead and implement reform	Executive branch agencies noted a lack of knowledge and experience among OPM staff to design and implement key human capital transformation efforts. GAO analysis of available OPM employee feedback data suggests that employees may not be receiving sufficient training to enhance their skills and competencies. OPM has begun aligning its workforce skills to meet future needs but has not conducted an agencywide skills assessment since updating its key strategic management documents. Lesson: Ensure that OPM's workforce is properly aligned to successfully design and implement human capital reforms, such as knowledge of innovative classification and pay and compensation approaches, and continue to prepare the workforce to meet changing demands of the future.
Ensure that executive branch agencies' infrastructures support reform	OPM's approach to certifying agencies' senior executive performance-based systems should more fully promote the building of the institutional infrastructure, such as robust performance management systems with adequate safeguards, within agencies needed to effectively implement the reforms. Lesson: Assist agencies in building the necessary infrastructure for a performance-based system by providing front-end and ongoing involvement—building on progress made to date.
Collaborate with CHCO Council	Executive branch agencies said the certification process was a missed opportunity for OPM to better collaborate with the CHCO Council. One agency CHCO said OPM traditionally uses council meetings to present information to the CHCOs, but does not always encourage discussions or seek input. Lesson: Cultivate effective partnerships with the CHCO Council by engaging them to solicit their ideas and suggestions during system design to build consensus and develop momentum for success.
Develop clear and timely guidance	The lack of clear and timely guidance from OPM created confusion as agencies attempted to understand and implement the broadly defined regulatory criteria for certification. Lesson: Provide agencies with clear and timely guidance—being sensitive to other ongoing human capital activities—to reach a common, consistent understanding and promote efficiency as agencies adjust to new requirements for reforms.
Share best practices	Executive branch agencies said OPM could have better facilitated sharing best practices to help them implement senior executive performance-based systems. Lesson: Facilitate the sharing of best practices for implementing human capital reforms by providing forums for agencies to learn from each others' experiences, share successful strategies, and avoid common pitfalls.
Solicit and incorporate feedback	Executive branch agencies said there was no formal mechanism, such as a customer survey, for them to provide feedback to OPM on its guidance and assistance. Lesson: Solicit feedback from executive branch agencies and incorporate to improve the implementation of human capital reforms.
Track progress to ensure accountability	OPM does not have an evaluation strategy for tracking the progress of the agencies' implementation of the new executive systems. Lesson: Develop a strategy to allow OPM, other federal agencies, and Congress to monitor progress toward achieving human capital reform goals.

Source: GAO analysis.

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Abbreviations

CHCO	Chief Human Capital Officer
CPDF	Civilian Personnel Data File
DHS	Department of Homeland Security
DOD	Department of Defense
DOL	Department of Labor
EEO	Equal Employment Opportunity
EEOC	Equal Employment Opportunity Commission
FDIC	Federal Deposit Insurance Corporation
FHCS	Federal Human Capital Survey
GSA	General Services Administration
HCAAF	Human Capital Assessment and Accountability Framework
HCLMSA	Human Capital Leadership and Merit System Accountability
HCO	Human Capital Officer
HR	Human Resources
HUD	Department of Housing and Urban Development
NASA	National Aeronautics and Space Administration
NSPS	National Security Personnel System
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PAAT	Performance Appraisal Assessment Tool
PMA	President's Management Agenda
SBA	Small Business Administration
SES	Senior Executive Service
SHRP	Strategic Human Resources Policy
SL	senior-level position
ST	scientific or professional position

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United States Government Accountability Office
Washington, DC 20548

January 19, 2007

The Honorable Joseph I. Lieberman
Chairman
The Honorable Susan M. Collins
Ranking Minority Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Daniel K. Akaka
Chairman
The Honorable George V. Voinovich
Ranking Minority Member
Subcommittee on Oversight of Government Management, the Federal
Workforce, and the District of Columbia
Committee on Homeland Security and Governmental Affairs
United States Senate

Strategic human capital management is the centerpiece of federal agencies' efforts to transform to meet the governance challenges of the 21st century. Congress has provided agencies with exemptions from the old rules and with new hiring flexibilities to more strategically manage their workforces to help meet current and emerging demands, and the Department of Defense (DOD) and the Department of Homeland Security (DHS) are implementing legislated human capital reforms affecting performance-based pay systems, among other things. Strategic human capital management has become more important as changes in workforce demographics pose additional challenges. Baby boomers are likely to begin retiring in large numbers in the near future, while at the same time the labor force is growing at a much slower rate. Thus, those leaving jobs will outnumber those seeking jobs, further challenging the federal government to ensure that it recruits, hires, trains, develops, and motivates the talent it needs to achieve meaningful results and to be competitive with the private sector.

Senior executives need to lead the way in transforming their agencies to become more results oriented, collaborative in nature, and customer focused. Also, we have reported that the shift to market-based and more

performance-oriented pay must be part of a broader strategy of change management and performance improvement initiatives and cannot be simply overlaid on existing ineffective performance management systems.¹ In 2003, Congress authorized a new performance-based pay system for members of the Senior Executive Service (SES). The Office of Personnel Management (OPM) has a key leadership role in leading and implementing this new system as well as other human capital initiatives and reforms. Thus, the lessons learned from implementing the new senior executive performance appraisal system (the foundation of the SES pay reforms) and other governmentwide human capital initiatives provide valuable insight into OPM's capacity to lead and implement human capital reforms.

As the federal government's human capital leader, OPM must have the capacity to effectively assist agencies and to successfully lead and implement these important human capital management transformations. To enhance its capacity to do so, OPM is working to transform its own organization from less of a rulemaker, enforcer, and independent agent to more of a consultant, toolmaker, and strategic partner. As reform initiatives move forward, it is increasingly important for OPM to complete this transformation and clearly demonstrate its capacity to lead and implement such reforms.

Given the importance of OPM's key role, you asked us to assess the extent to which OPM has the capacity to lead and implement governmentwide human capital reform. In June 2006, we testified before the Subcommittee that while OPM has made progress towards transforming itself to be a more effective leader of human capital reform, it could build upon this progress by addressing a number of management challenges.² This report supplements the information we provided in our June 2006 testimony, and as agreed with your offices is the second in a series of reports, and specifically identifies lessons that can be learned from OPM's efforts to lead and implement the senior executive performance-based pay system and other human capital initiatives that can be applied to ongoing and future human capital reform efforts. OPM officials agreed that its role in certifying senior executive performance appraisal systems is illustrative of

¹GAO, *Human Capital: Symposium on Designing and Managing Market-Based and More Performance-Oriented Pay Systems*, [GAO-05-832SP](#) (Washington, D.C.: July 27, 2005).

²GAO, *Office of Personnel Management: OPM is Taking Steps to Strengthen Its Internal Capacity for Leading Human Capital Reform*, [GAO-06-861T](#) (Washington, D.C.: June 27, 2006).

the challenges OPM faces related to future human capital legislative reforms. As you have requested, we will continue to follow up on these and other issues related to OPM's capacity to lead and implement human capital reforms including issues raised in our June 2006 testimony on OPM's (1) leadership; (2) talent and resources; (3) customer focus, communication, and collaboration; and (4) performance culture and accountability.

For this report, we reviewed and analyzed key documents related to the senior executive performance-based pay system, including the legislation that authorized the pay flexibilities and the OPM and Office of Management and Budget (OMB) regulations developed to administer these systems. We also reviewed and analyzed other documents related to OPM's process for certifying agency performance appraisal systems and conducted interviews with OPM's five associate directors and other OPM staff, as well as staff from OMB involved in the appraisal system certification process. To obtain agency views on their experiences with the certification process, we interviewed 22 of the 23 members of the Chief Human Capital Officers (CHCO) Council and their corresponding agency human resource (HR) directors and obtained written responses from the 1 agency we did not interview. We also drew from our June 2006 testimony that included data from the Civilian Personnel Data File (CPDF) and our analysis of the 2004 Federal Human Capital Survey (FHCS),³ 2005 OPM focus groups, and 2006 OPM action plans to address problems identified. We also reviewed OPM's March 2006 strategic and operational plan, associated workforce planning documents, and documentation on other OPM human capital initiatives, such as the Performance Appraisal Assessment Tool (PAAT) and agency beta sites for performance management below the senior level. Appendix I contains a detailed discussion of our scope and methodology. We conducted our work from October 2005 to September 2006, in accordance with generally accepted government auditing standards.

Results in Brief

The congressionally authorized senior executive performance-based pay system, implemented in 2004 as well as OPM's implementation of other governmentwide human capital initiatives, provides an opportunity to learn from experiences gained and apply those lessons to the

³OPM developed the governmentwide Federal Human Capital Survey to assist agencies and OPM in better understanding specific and governmentwide agency workforce management conditions and practices in the areas of leadership, performance culture, and talent.

implementation of future human capital reforms. More specifically, OPM has a key leadership and oversight role in the design and implementation of agencies' senior executive performance-based pay systems and is likely to play a similar role in governmentwide human capital reform. For example, to qualify for the pay flexibilities under the statute, OPM must certify and OMB must concur that an agency's senior executive appraisal system meets specific criteria jointly developed by OPM and OMB. For lessons learned that can inform the design and implementation of additional human capital reforms, see table 1.

Table 1: Lessons Learned from the Performance-based System and Other Human Capital Initiatives

Ensure internal OPM capacity to lead and implement reform	Executive branch agencies noted a lack of knowledge and experience among OPM staff to design and implement key human capital transformation efforts. GAO analysis of available OPM employee feedback data suggests that employees may not be receiving sufficient training to enhance their skills and competencies. OPM has begun aligning its workforce skills to meet future needs but has not conducted an agencywide skills assessment since updating its key strategic management documents. Lesson: Ensure that OPM's workforce is properly aligned to successfully design and implement human capital reforms, such as knowledge of innovative classification and pay and compensation approaches, and continue to prepare the workforce to meet changing demands of the future.
Ensure that executive branch agencies' infrastructures support reform	OPM's approach to certifying agencies' senior executive performance-based systems should more fully promote the building of the institutional infrastructure, such as robust performance management systems with adequate safeguards, within agencies needed to effectively implement the reforms. Lesson: Assist agencies in building the necessary infrastructure for a performance-based system by providing front-end and ongoing involvement—building on progress made to date.
Collaborate with CHCO Council	Executive branch agencies said the certification process was a missed opportunity for OPM to better collaborate with the CHCO Council. One agency CHCO said OPM traditionally uses council meetings to present information to the CHCOs, but does not always encourage discussions or seek input. Lesson: Cultivate effective partnerships with the CHCO Council by engaging them to solicit their ideas and suggestions during system design to build consensus and develop momentum for success.
Develop clear and timely guidance	The lack of clear and timely guidance from OPM created confusion as agencies attempted to understand and implement the broadly defined regulatory criteria for certification. Lesson: Provide agencies with clear and timely guidance—being sensitive to other ongoing human capital activities—to reach a common, consistent understanding and promote efficiency as agencies adjust to new requirements for reforms.
Share best practices	Executive branch agencies said OPM could have better facilitated sharing best practices to help them implement senior executive performance-based systems. Lesson: Facilitate the sharing of best practices for implementing human capital reforms by providing forums for agencies to learn from each others' experiences, share successful strategies, and avoid common pitfalls.
Solicit and incorporate feedback	Executive branch agencies said there was no formal mechanism, such as a customer survey, to provide feedback to OPM on its guidance and assistance. Lesson: Solicit feedback from executive branch agencies and incorporate to improve the implementation of human capital reforms.
Track progress to ensure accountability	OPM does not have an evaluation strategy for tracking the progress of the agencies' implementation of the new executive systems. Lesson: Develop a strategy to allow OPM, other federal agencies, and Congress to monitor progress toward achieving human capital reform goals.

Source: GAO analysis.

Ensure internal OPM capacity to lead and implement reform.

Executive branch agency experiences with implementing the senior executive performance-based pay systems and other human capital efforts point to a lack of knowledge and experience among OPM staff, and a majority of agency CHCOs and HR directors expressed concern with OPM's ability to generally provide timely and accurate guidance to agencies both now and in the future. OPM's capacity in technical areas such as pay and compensation may be dependent upon a few employees skilled in these areas. Also, our analysis of available OPM data suggests that overall employees may not be receiving sufficient training to enhance their skills and competencies. The problem of a lack of knowledge and experience may be compounded by the potential loss of institutional knowledge. OPM's succession planning data show that as of July 2006, nearly half of its 376 supervisors, managers, and executives were eligible for either early or regular retirement. Based on historical trend data, OPM projects an overall loss (including retirements) of roughly 65 to 75 supervisory, managerial, and executive positions per year.

OPM has begun to align its workforce skills and competencies to meet additional requirements stemming from future reforms and other environmental changes. For example, OPM conducted agencywide skills and competencies assessments in 2001 and 2003, and has conducted skills assessments for certain targeted occupations. Validating skills and competencies is important because the workforce skills and competencies needed to be a strategic partner, toolmaker, or consultant may be different from those needed in the past to be a rulemaker or enforcer of regulations. Importantly, OPM has recently updated several of its key strategic management documents. For example, in March 2006, OPM issued its *Strategic and Operational Plan, 2006-2010*—the starting point and basic underpinning for transformation. In August 2006, OPM updated its *Corporate Leadership Succession Management Plan* to include all of its supervisory, management, and executive positions with succession planning profiles that contain a list of specific and general technical competency requirements for each position. At the end of September 2006, OPM issued its *Plan for the Strategic Management of OPM's Human Capital* for fiscal years 2006-2007. A new agencywide skills assessment would enable OPM to better align its workforce with needed resources to meet current and emerging demands.

Ensure that executive branch agencies' infrastructures support reform. OPM's approach to certifying agencies' senior executive performance appraisal systems could more fully promote the building of the institutional infrastructure, such as robust performance management

systems with adequate safeguards, within agencies needed to effectively implement the executive performance and pay reforms. Overall, the regulations that OPM and OMB developed to administer a performance-based pay system for executives serve as an important step for agencies in creating an alignment or “line of sight” between executives’ performance and organizational results. Agencies that are authorized to implement the new pay flexibilities will receive either a provisional or full certification. Provisionally certified agencies receive the same pay flexibilities as those with fully certified systems, even though agencies with provisional certification do not meet all nine of the certification criteria. In essence, the provisional category of certification constitutes a phased approach to implementing performance-based pay systems by allowing agencies to work toward meeting the full certification requirements as they are implementing the new authorities. Of the 33 performance appraisal systems that have been certified in 2006, only the Department of Labor’s SES system received full certification. OPM has opportunities to build on the progress it has made and further strengthen its efforts. More specifically, additional front-end and ongoing OPM involvement appears to be needed to assist agencies in achieving and maintaining full certification. Executive branch agency officials said OPM’s role in the certification process focuses more on enforcing rules regarding applications for certification, rather than guiding and assisting agencies in building the necessary infrastructure for a performance-based pay system. This is especially true as the standards for full certification are evolving and becoming more difficult to meet.

Collaborate with CHCO Council. Executive branch agency officials said the certification process was a missed opportunity for OPM to better collaborate with the CHCO Council. One agency CHCO told us that OPM traditionally uses council meetings to present information to the CHCOs, but does not always encourage discussions or seek the council’s input. OPM officials indicated that they provided the CHCO Council with opportunities to discuss the certification process. However, some CHCOs wanted more involvement in crafting the fundamental design and applicable issues of the certification process, rather than commenting on draft regulations after the fact. For example, CHCOs were given a very short time frame of 24 hours to review and comment on the proposed certification criteria.

Develop clear and timely guidance. The lack of clear and timely guidance from OPM created confusion as agencies attempted to understand and implement the broadly defined regulatory criteria and adjust to the requirements for certification. Officials at a majority of the

CHCO Council agencies told us they did not have enough initial guidance to properly prepare for meeting the certification criteria, and this problem has continued beyond the initial release of the regulations. OPM officials we spoke with agreed that OPM needs to provide clear and consistent guidance to agencies and said they are working to improve this. These officials said the certification of agency pay systems has been an iterative, learning process, and OPM is positioning itself to provide more guidance to agencies.

Share best practices. Executive branch agency officials told us that OPM could have better facilitated the sharing of best practices to help them implement their performance-based pay systems. For example, executive branch agency officials said best practices for developing senior executive performance measures are needed to make their performance plans more results based, as required for certification. Recently, OPM has taken steps to share information among agencies. In September 2006, OPM provided agencies' executive resource directors with samples of actual agency senior executive performance plans, though OPM did not specify why these samples were selected and if they should serve as best practices for other agencies.

Solicit and incorporate feedback. OPM does not actively solicit and act on feedback from agencies on the implementation of the certification process. Executive branch agency HR directors said there was not a formal mechanism, such as a survey instrument, for agencies to provide feedback to OPM on its guidance and assistance to agencies. An OPM executive confirmed that OPM does not have a formal feedback mechanism; however, this official said OPM converses with agencies regularly, so OPM did not feel the need to obtain information in this way. Also, OPM does not capture senior executive perceptions of the new performance appraisal system, and further, OPM does not require agencies to gather feedback from senior executives who are directly affected by the new appraisal systems, even though agencies are approaching the fourth year of implementation.

Track progress to ensure accountability. OPM does not have an evaluation strategy to track the progress of the overall results of the senior executive performance-based systems. OPM is taking steps to monitor how agencies are making meaningful distinctions in senior executive performance—one of the nine criteria it has developed for certifying agencies' senior executive performance appraisal systems. Once agencies have provisional or full certification, OPM monitors this criterion by measuring the distributions of agencies' performance ratings and pay. We

have reported that agencies seeking human capital reform should consider doing evaluations that are broadly modeled on the evaluation requirements of the OPM demonstration projects. Under the demonstration project authority, agencies must evaluate and periodically report on results, implementation of the demonstration project, cost and benefits, impacts on veterans and other equal employment opportunity groups, adherence to merit system principles, and the extent to which the lessons from the project can be applied governmentwide.

In addition to the lessons learned that can be applied to future human capital reforms, we are making a recommendation to the Director of OPM to help ensure that OPM has the skills and competencies needed to effectively assist executive branch agencies with future human capital reform efforts by reexamining OPM's current agencywide competency assessment to reflect changes in the human capital environment and demands of the future. Also, to assist agencies in meeting the requirements for certification of their senior executive performance appraisal systems, we are making recommendations to the Director of OPM to (1) develop and publish a timeline for the issuance of certification guidance with the input of the CHCO Council; (2) evaluate alternatives that could remedy the year-end time compression that agencies face when trying to meet OPM application requirements and avoid a gap in certification; (3) work with the CHCO Council to develop a formal mechanism for sharing leading practices for implementing human capital initiatives, such as the senior executive appraisal system and other performance management reform initiatives; (4) develop a formal feedback mechanism to obtain agencies' views on OPM's implementation of the certification process; (5) work with executive branch agencies to develop a systematic approach for obtaining employee attitudes towards human capital reforms; and (6) develop a strategy to allow OPM, other executive agencies, and Congress to monitor the progress of implementation of the senior executive performance-based pay system.

We provided OPM a draft of this report for its review and comment and received a written response from the Director of OPM. Director Springer said OPM has made progress towards achieving its operational and strategic goals since she became Director of OPM. The Director provided information that while beyond the scope of the report, nonetheless is helpful in understanding the context in which OPM is operating. Specifically, she commented that OPM associates have worked together and with agencies to achieve the objectives that are tied to OPM's *Strategic and Operational Plan, 2006-2010*, and since March 2006, OPM has achieved its plan's objectives, on time or ahead of schedule. While

OPM neither agreed nor disagreed with our recommendations, the agency provided a number of technical comments and, where appropriate, we have made changes to the report language to reflect these comments. Director Springer's letter on our draft report is found in appendix IV.

Background

OPM's mission and responsibilities are found in Title 5 of the U.S. Code, which provides for the effective implementation of civil service laws, rules, and regulations. OPM also evaluates the effectiveness of personnel policies, agency compliance with laws, rules, regulations and office directives, and agency personnel management evaluation systems. Overall, OPM manages the federal government's human capital and is charged with helping agencies shape their human capital management systems and holding them accountable for effective human capital management practices. OPM does this in such a way to help ensure that: (1) the federal government acquires, develops, manages, and retains employees with the knowledge, skills, and abilities needed to deliver services that the American public want and deserve; and (2) agencies consistently uphold governmentwide values, such as merit system principles, veteran's preference, and workforce diversity. OPM is also responsible for administering retirement, health benefits, and other insurance services to government employees, annuitants, and beneficiaries.

In January 2001, we added strategic human capital management to our list of federal programs and operations identified as high risk.⁴ In a July 2001 report, we evaluated OPM's goals and measures for assessing the state of human capital at federal departments and agencies and found weaknesses in OPM's measures of workforce skills and employee accountability and made recommendations to help address these issues, among other things.⁵ OPM has since taken action on our recommendations. In a January 2003 report, we examined OPM's progress towards its own transformation, as OPM shifts its role from less of a rule maker and enforcer to more of a consultant and strategic partner in leading and supporting agencies' human capital initiatives. We concluded that OPM should exert greater leadership to prepare the way for human capital reform.⁶

⁴GAO, *High-Risk Series: An Update*, [GAO-01-263](#) (Washington, D.C.: January 2001).

⁵GAO, *Office of Personnel Management: Status of Achieving Key Outcomes and Addressing Major Management Challenges*, [GAO-01-884](#) (Washington, D.C.: July 9, 2001).

⁶GAO, *Major Management Challenges and Program Risks, Office of Personnel Management*, [GAO-03-115](#) (Washington, D.C.: January 2003).

In June 2006, we testified before the Subcommittee that OPM has made commendable efforts towards transforming itself to being a more effective leader of governmentwide human capital reform. We noted however, that it could build upon that progress by addressing challenges that remain in four key areas: (1) leadership; (2) talent and resources; (3) customer focus, communication, and collaboration; and (4) performance culture and accountability.⁷ First, in the area of leadership, we reported that information from OPM employees based on our analysis of the 2004 FHCS suggests that information from their top leadership does not cascade effectively throughout the organization and that many employees do not feel their senior leaders generate a high level of motivation and commitment in the workforce. These views on leadership were more strongly expressed by employees in OPM's Human Capital Leadership and Merit System Accountability (HCLMSA) division—one of OPM's key divisions and a unit responsible for partnering with agencies and vital to successful human capital reform efforts. In May 2006, OPM developed a series of action plans to address issues raised in the 2004 FHCS, including a number of planned actions to improve overall and cross-divisional communication and employee views of senior management.

Second, we reported that in the area of talent and resources, OPM has made progress in assessing current workforce needs and developing leadership succession plans; however, if OPM is to lead governmentwide human capital reform it can do more to identify the skills and competencies of the new OPM, determine any skill and competency gaps, and develop specific steps to fill such gaps. Third, we reported that the views of agency CHCOs and HR directors as well as OPM employees show that OPM can improve its customer service and communication with agencies and that guidance to agencies is not always clear and timely. Executive branch agency officials also pointed to OPM's Human Capital Officer (HCO) structure as a frequent barrier to efficient customer response and felt there are greater opportunities for OPM to dialogue and collaborate with CHCOs and HR directors. Fourth, with respect to performance culture and accountability, we reported that OPM has made progress in creating a "line of sight" or alignment and accountability across its leaders' expectations and organizational goals in its strategic and operational plan; however, success in achieving governmentwide reform objectives will rest, in part, on OPM's ability to align performance

⁷[GAO-06-861T](#).

and consistently support mission accomplishment for all employees of the organization.

As Congress and other stakeholders have recognized the importance of strategic human capital management, several legislative changes have occurred. In November 2002, Congress passed the Homeland Security Act of 2002,⁸ which created DHS and provided the department with significant flexibility to design, in consultation with OPM, a modern human capital management system affecting approximately 180,000 personnel. Specifically, the legislation granted DHS certain exemptions from the laws governing federal civilian personnel management in Title 5 of the U.S. Code—providing DHS with certain human capital flexibilities to establish a contemporary human capital system that will enable it to attract, retain, and reward a workforce able to meet its critical mission.⁹

To address governmentwide human capital management challenges, Title XIII of the Homeland Security Act, also cited as the Chief Human Capital Officers Act of 2002, established CHCO positions in 23 agencies to advise and assist the heads of agencies and other executive branch agency officials in their strategic human capital management efforts. The act also created the CHCO Council to advise and coordinate the activities of members' agencies on such matters as the modernization of human resources systems, improved quality of human resources information, and legislation affecting human resources operations and organizations.¹⁰ The act also included significant provisions related to direct hire authority, the use of categorical ranking in the hiring of applicants instead of the “rule of three,” expansion of voluntary early retirement and “buy-out” authority, a requirement to discuss human capital approaches in Government Performance and Results Act reports and plans, and a provision raising the total annual compensation limit for senior executives and other senior professionals in agencies with performance appraisal systems that have

⁸Pub. L. 107-296, Nov. 25, 2002.

⁹Full implementation of the DHS personnel system has stalled due to an appeals court decision invalidating portions of the personnel regulations that deal with labor management relations. DHS has begun to transition nonunion employees to the new pay system and to train employees about the new system.

¹⁰The 25-member CHCO Council is composed of the Director OPM, who serves as chairman; the Deputy Director for Management of OMB, who acts as vice chairman; the CHCOs of the 15 executive departments; and the CHCOs of 8 additional agencies designated by the OPM Director.

been certified by OPM and OMB as making meaningful distinctions in relative performance.

In November 2003, the National Defense Authorization Act for Fiscal Year 2004¹¹ provided DOD—the largest federal employer—with authority, in conjunction with OPM, to establish a flexible and contemporary human resources system, including a new (1) pay and performance management system, (2) appeals process, and (3) labor relations system—which together comprise the National Security Personnel System (NSPS). Like the Homeland Security Act, this legislation granted DOD certain exemptions from Title 5 of the U.S. Code and provided significant flexibility for designing NSPS, allowing for a new framework of rules, regulations, and processes to govern how defense civilian employees are hired, compensated, promoted, and disciplined. The NSPS would cover approximately 700,000 employees.¹²

Also, in the National Defense Authorization Act for Fiscal Year 2004, Congress authorized a new performance-based pay system for members of the SES.¹³ Under the new system, which took effect in January 2004, senior executives no longer receive annual across-the-board or locality pay adjustments. Executive branch agencies must now base pay adjustments for senior executives on individual performance and contributions to agency performance through an evaluation of their unique skills, qualifications, or competencies, as well as the individual's current responsibilities. The new pay system raises the cap on base pay and total compensation. For 2006, the caps are \$152,000 for base pay (Level III of the Executive Schedule) with a senior executive's total compensation not to exceed \$183,500 (Level I of the Executive Schedule). If an agency's senior executive performance appraisal system is certified by OPM and OMB concurs, the caps are increased to \$165,200 for base pay (Level II of the Executive Schedule) and \$212,100 for total compensation (the total annual compensation payable to the Vice President).

¹¹Pub. L. No. 108-136, Nov. 24, 2003.

¹²As with the DHS personnel system, full implementation of the NSPS has stalled due to a federal district court decision invalidating the labor relations and adverse action portions of the regulations. DOD has already placed 11,000 nonunion employees under the new system and began transitioning another 66,000 employees to the system in October 2006.

¹³Prior to passage of the act authorizing the pay flexibilities, in October 2000, OPM amended regulations for senior executive performance management to help agencies hold senior executives accountable for organizational results, a mandate that originates in the Civil Service Reform Act of 1978.

In addition to SES employees, many agencies use senior employees with scientific, technical, and professional expertise, commonly known as senior-level (SL) and scientific or professional (ST) positions. SL/ST positions have a lower maximum rate of basic pay than SES employees, and unlike the SES, their individual rate of pay does not necessarily have to be based on individual or agency performance. However, an agency may apply to OPM and OMB for certification of its SL/ST performance appraisal system, and if the system is certified as making meaningful distinctions in relative performance, an agency may raise the total annual compensation maximum for SL/ST employees to the salary of the Vice President.¹⁴ However, certification does not affect the maximum rate of basic pay of SL/ST employees.

To qualify for these pay flexibilities, OPM must certify and OMB must concur that an agency's senior executive performance appraisal system meets certification criteria jointly developed by OPM and OMB. Two levels of performance appraisal system certification are available to agencies: full and provisional. To receive full certification, which lasts for 2 calendar years, the design of agency systems must meet nine certification criteria and agencies must provide documentation of prior performance ratings to demonstrate compliance with the criteria. Agencies can receive provisional certification, which lasts for 1 calendar year, if they have designed but not yet fully implemented a senior executive performance appraisal system, or do not have a history of performance ratings that meets the certification criteria. In September 2006, we testified before the Subcommittee that the certification criteria are generally consistent with our body of work identifying key practices for effective performance management systems.¹⁵ In addition, we testified that these senior executive and senior-level employee performance-based pay systems serve as an important step for agencies in creating alignment or "line of sight" between executives' performance and organizational results. A detailed description of the certification criteria and process is provided in appendix II.

¹⁴This authority was granted under the Homeland Security Act of 2002, Pub. L. 107-296, Nov. 25, 2002.

¹⁵GAO, *Human Capital: Aligning Senior Executives' Performance with Organizational Results Is an Important Step Toward Governmentwide Transformation*, [GAO-06-1125T](#) (Washington, D.C.: Sept. 26, 2006).

Key Lessons Learned from the Senior Executive Performance-based Pay System and Other Human Capital Initiatives

The congressionally authorized senior executive performance-based pay system, implemented in 2004, as well as OPM's implementation of other governmentwide human capital initiatives, provides an opportunity to learn from experiences gained and apply those lessons to the implementation of future human capital reforms. As OPM is likely to play a similar leadership and oversight role in future reforms, the following lessons learned may also assist OPM as it moves forward in the design and implementation of other human capital reforms and initiatives.

Ensure Internal OPM Capacity to Lead and Implement Reform

To successfully transform or implement a large-scale change initiative such as governmentwide human capital reform, an organization must fundamentally reexamine its processes, organizational structures, and management approaches—including its workforce capacity. Strategic workforce planning addresses two critical needs: (1) aligning an organization's human capital program with its current and emerging mission and programmatic goals, and (2) developing long-term strategies for acquiring, developing, and retaining staff to achieve programmatic goals. As mentioned previously, in 2003, we reported that OPM was undergoing its own transformation—from less of a rulemaker to more of a consultant in leading and supporting executive agencies' human capital management systems.¹⁶ As the organization transforms and OPM works to balance rules and tools and change its organizational culture, it is critical that OPM examine its internal capacity to ensure its workforce has the competencies to meet the multiple demands of the future and successfully implement human capital reforms. In particular, we have reported that a one-size-fits-all approach to human capital management is not appropriate for the challenges and demands government faces and that there should be a governmentwide framework to guide human capital reform.¹⁷ Thus, it is particularly important that OPM's workforce have the knowledge, skills, and abilities to understand how to balance the need for consistency across the federal government with the desire for flexibility, so that they can assist individual agencies in tailoring their human capital systems to best meet their needs. Striking this balance will not be easy to achieve, but is

¹⁶GAO-03-115.

¹⁷GAO and the National Commission on the Public Service Implementation Initiative, *Human Capital: Principles, Criteria, and Processes for Governmentwide Federal Human Capital Reform*, GAO-05-69SP (Washington, D.C.: Dec. 1, 2004).

necessary to maintain a governmentwide system that is responsive enough to adapt to agencies' diverse missions, cultures, and workforces.

Executive branch agency experiences with implementing the senior executive performance-based pay systems and other human capital efforts point to a lack of knowledge and experience among OPM staff. Several executive branch agency officials commented that OPM conveyed a “we’ll know it when we see it” method of communicating expectations, and was thus unable to effectively communicate to agencies their expectations regarding the senior executive performance appraisal system certification process. In addition, executive branch agency officials told us they believe the DOD and DHS human capital reform efforts severely taxed OPM technical resources, specifically pay and compensation employees. One CHCO surmised that OPM’s capacity is dependent upon a few key employees skilled in these areas, particularly innovative pay and compensation approaches. An OPM senior executive confirmed this, telling us that turnover and retirement were problematic for pay and compensation experts at OPM. Also, a majority of agency CHCOs, HR directors, and their staffs expressed concern about whether OPM generally has the technical expertise needed to provide timely and accurate human capital guidance and advice both now and in the future. We previously reported that problems arose for many agencies when technical questions had to be communicated via OPM HCOs to the policy experts at OPM.¹⁸ This issue may have been magnified for some agencies by the frequent turnover or reassignments among HCOs. The HCO position was established in 2003 at OPM as part of its transformation efforts to help improve customer service to agencies.¹⁹ An executive branch agency official told us that her agency was assigned four different HCOs in the last 18 months. According to OPM’s most recent strategic human capital plan, OPM recognizes that HCO staff will need to develop greater familiarity with areas beyond each individual’s technical expertise and plans for its staff to gain “cross-functional knowledge” through means such as staff participation on cross-functional work groups that address various initiatives, training opportunities, and other developmental assignments that lend themselves to professional growth and development.

¹⁸[GAO-06-861T](#).

¹⁹Within the HCMLSA division, OPM assigns one HCO as the main point of contact to each agency of the President’s Management Council and one to each cluster of small agencies.

Further, our analysis of OPM's agency results from the 2004 FHCS and 2005 follow-up focus group data suggest that OPM employees may not be receiving sufficient training to enhance their skills and competencies. OPM employees were not as close to the employees in the rest of government in agreeing with the statement "I receive the training I need to perform my job." Fifty-three percent of OPM employees agreed with this statement as compared with 60 percent of employees from the rest of government. Focus group participants selected this item as one of the most important issues for OPM to address—expressing the view that OPM's culture does not support training, employees do not have time to attend training classes, and managers are not given sufficient and timely training budgets. An OPM executive supported these views, stating that it can be a struggle to convince managers that people should attend training. A former senior OPM official told us that he did not have an overall budget, including training, for his department while at OPM.

OPM has begun to align its workforce skills and competencies to meet additional requirements stemming from future reforms and other environmental changes. For example, OPM conducted agencywide skills and competencies assessments in 2001 and 2003, and has conducted skills assessments for certain targeted occupations—information technology, human resource management, and selected mission-critical positions. Validating skills and competencies is important because the workforce skills and competencies needed to be a strategic partner, toolmaker, or consultant may be different from those needed in the past to be a rulemaker or enforcer of regulations. Importantly, OPM has also updated several of its key strategic management documents. First, in March 2006, OPM issued its *Strategic and Operational Plan, 2006-2010*—the starting point and basic underpinning for transformation. The plan's strength is in its definition of clear, tangible goals and deliverables. However, the plan does not include a description of the relationship between the long-term goals and annual goals.

Second, in August 2006, OPM updated its *Corporate Leadership Succession Management Plan* to include all of its supervisory, management, and executive positions with succession planning profiles that contain a list of specific and general technical competency requirements for each position. This is important because the problem of a lack of knowledge and experience at OPM may be compounded by the potential loss of institutional knowledge. In June 2006, we testified that

without careful planning, employee attrition, including senior executives, could pose the threat of an eventual loss in institutional knowledge, expertise, and leadership continuity at OPM.²⁰ OPM's succession planning data show that as of July 2006, nearly half of its 376 supervisors, managers, and executives were eligible for either early or regular retirement. Based on historical trend data, OPM projects an overall loss (including retirements) of roughly 65 to 75 supervisory, managerial, and executive positions per year. Even more recently, at the end of September 2006, OPM issued its *Plan for the Strategic Management of OPM's Human Capital* for fiscal years 2006-2007. According to OPM's strategic human capital plan, voluntary attrition among employees overall at OPM has averaged approximately 11 percent over a 3-year period and voluntary retirements comprised approximately 25 percent of separations from 2003 to 2006.

OPM has developed strategies to help support its succession planning objectives, such as providing resources to improve and develop the competence of internal candidate pools to develop deep "bench strength." In addition, OPM plans to target recruitment efforts around the critical and core competencies it has identified for each position and to use recruitment incentives and flexibilities to attract the most desirable candidates. These succession planning efforts are important because leading organizations engage in broad, integrated succession planning efforts that focus on strengthening both current and future organizational capacity.

OPM's ability to lead and oversee human capital management policy changes that result from potential human capital reform could be affected by its internal capacity and ability to maintain the right skills and competencies of its workforce, as well as an effective leadership team. The steps taken by OPM demonstrate progress in achieving its transformation and it must continue on this path by closely monitoring its actions to align its workforce to meet current and emerging demands. A new agencywide skills assessment would enable OPM to better align its workforce with needed resources to meet such demands. Building and maintaining expertise in areas that will be critical to future reforms, such as classification and pay and compensation policy, and ensuring that OPM employees receive opportunities for training and development that will help them in assisting agencies with the implementation of reforms, are

²⁰[GAO-06-861T](#).

critical for future reform success. These workforce and training goals and objectives also should be included in the means and strategies developed in OPM's strategic planning process. Moving forward, OPM can continue to monitor implementation of long-term strategies to better prepare its workforce for change and continue to build its workforce capacity to meet the demands of the future.

Ensure That Executive Branch Agencies' Infrastructures Support Reform

We have reported that the federal government should follow a phased approach towards human capital reforms that meets a "show me" test.²¹ That is, each agency should be authorized to implement a reform only after it has shown it has met certain conditions, including having the institutional infrastructure in place necessary for success. This infrastructure includes, at a minimum, a modern, effective, credible, and validated performance management system that provides a clear linkage between institutional, unit, and individual performance-oriented outcomes, as well as providing for adequate internal and external safeguards to ensure fairness, and prevent abuse, and is nondiscriminatory. The absolutely critical role that a solid infrastructure plays has been amply demonstrated by our own and other organizations' experiences in shifting to market-based and more performance-oriented pay. These experiences have shown that market-based and performance-oriented pay reforms cannot be simply overlaid on existing ineffective performance management systems, but must be part of a broader strategy of change management and performance improvement initiatives. As the leader of the federal government's human capital strategies, OPM plays a key role in fostering and guiding improvements in all areas of strategic human capital management across the executive branch. As part of its key leadership role, OPM can assist—and as appropriate, require—the building of the infrastructures within agencies needed to successfully implement and sustain human capital reforms and related initiatives. OPM can do this in part by encouraging continuous improvement and providing appropriate assistance to support agencies' efforts.

As we testified in September 2006, overall, the regulations that OPM and OMB developed to administer a performance-based pay system for executives serve as an important step for agencies in creating an alignment or "line of sight" between executives' performance and

²¹GAO, *Human Capital: Preliminary Observations on the Administration's Draft Proposed "Working for America Act"*, GAO-06-142T (Washington, D.C.: Oct. 5, 2005).

organizational results.²² However, OPM's approach to certifying agencies' senior executive performance appraisal systems could more fully promote the building of the institutional infrastructures needed to effectively implement the senior executive performance and pay reforms.

Under OPM and OMB regulations, agencies that are authorized to implement the new pay flexibilities will receive either a provisional or full certification. Provisionally certified agencies receive the same pay flexibilities as those with fully certified systems, even though agencies with provisional certification do not meet all nine of the certification criteria. In essence, the provisional category of certification constitutes a phased approach to implementing performance-based pay systems by allowing agencies to work toward meeting the OPM and OMB full certification requirements as they are implementing the new authorities. Of the 33 performance appraisal systems that have been certified in 2006, only the Department of Labor's system for its senior executives received full certification.²³ The remaining 32 systems received provisional certification, the majority of which were provisionally certified for the third straight year. (See app. III for the list of agencies that have received certification of their performance appraisal systems since 2004.)

An agency that is provisionally certified must reapply annually rather than the every 2 years that is required of agencies with full certification. This annual reapplication process for agencies with provisional certification is important in order to help ensure continued progress in fully meeting congressional intent in authorizing the new performance-based pay system. Moreover, continuing scrutiny from OPM and OMB is important because there is no required time frame under which a provisionally certified agency must demonstrate it meets all the OPM and OMB criteria and thereby receive full certification. In that regard, OPM's January 2006 guidance required agencies with provisional certification to submit information to OPM and OMB showing improvements the agency has made in response to comments from those agencies. This requirement was underscored in OPM's October 31, 2006, guidance for calendar year 2007, that asked agencies to highlight in their certification request any description or evidence of improvements made as a result of comments from OPM or OMB in response to the agency's 2006 certification submission.

²²GAO-06-1125T.

²³The Department of Labor's SL/ST system has not reached full or provisional certification.

As noted, OMB and OPM's efforts represent an important step in fostering "lines of sight" within the agencies. Nonetheless, OPM has opportunities to further strengthen its efforts. More specifically, additional front-end and ongoing OPM involvement appears to be needed to assist agencies in achieving and maintaining full certification. Executive branch agency officials said OPM's role in the certification process focuses more on enforcing rules regarding applications for certification, rather than guiding an agency to build the necessary infrastructure for a performance-based pay system. In addition, these executive branch agency officials said OPM has helped them improve their pay systems, but they also said OPM should provide more active assistance during the design and implementation of the system rather than waiting to evaluate the end results. Further, an agency CHCO said OPM is not prepared to interact with agencies to progressively develop and sustain their senior executive performance-based pay systems over time once they get through the certification process.

Since the certification process started in 2004, OPM has raised the bar for certification by placing a greater emphasis on measurable business outcomes. Raising the bar in the spirit of continuous improvement is appropriate, but agencies can not achieve the higher standards unless they are continually building the foundations essential to support augmented requirements and new improvements. The only two agencies that were fully certified in 2004, the General Services Administration (GSA) and the Pension Benefit Guarantee Corporation, were unable to retain full certification when they reapplied in 2006. An official from one of these agencies said they applied for full certification in 2006, but received provisional certification because OPM had raised the bar for meeting full certification. The agency official stated that upon receiving full certification in 2004, OPM stopped communicating with the agency about new developments in the certification process. In addition, this official said they were "left in the dark" about how OPM's certification standards were potentially changing, and how the process for certification was evolving. It was not until 4 months after they submitted their application to recertify their system that OPM raised concerns regarding "weak" executive performance measures, though this agency believed that it had achieved the requirement according to OPM's guidance. The agency opted to accept provisional certification rather than redo its senior executive performance plans and wait for full certification.

In general, OPM has recognized that agencies need more assistance and guidance developing an infrastructure to support performance management systems for executive branch employees below the senior

executive level. OPM developed the Performance Appraisal Assessment Tool (PAAT) and has promoted performance management beta sites to address this need.²⁴ The PAAT provides agencies with an assessment tool that focuses on the design and implementation of performance management systems, the training and development of supervisors, and the agency's accountability for the system. The PAAT helps agencies identify weaknesses in their performance management systems and provides agencies an opportunity to develop a comprehensive strategy for revising its performance management practices to better support a results-focused performance culture. The beta sites give agencies an opportunity to test their nonexecutive performance management systems on a small scale before expanding them agencywide.

Agencies and OPM use the PAAT to evaluate the progress of the beta sites. This approach of evaluating and testing allows agencies to build internal capacity, gain experience, and demonstrate that they are prepared to link pay to performance for all employees. However, as one executive branch agency official noted, the PAAT is used more by OPM to ensure accountability than to build agency infrastructure. Similar to concerns expressed about the senior executive system certification process, an agency HR director said OPM does not provide "up-front" implementation plans to agencies that outline the required agency investment and infrastructure needed to successfully meet new human capital requirements.

Going forward, OPM can help agencies build this infrastructure by designing its human capital reform efforts to promote and support continuous agency improvement. OPM will need to expand the focus of its efforts to help identify the obstacles that are impeding agencies from achieving desirable human capital outcomes, and then take appropriate measures to address them and set mutually agreed-upon goals for improvement. These actions will help ensure that agencies continue to make substantive progress toward modernized, credible performance management systems, and that provisional certifications do not become the norm. OPM can also take steps to define what it will take in terms of fact-based and data-driven analyses for agencies to demonstrate that they

²⁴In June 2006, OPM established its beta site for its HCLMSA division to align employee performance expectations with agency strategic goals. In fiscal year 2007, OPM told us it plans to expand its beta site to other divisions, which will then cover approximately 70 percent of the agency.

are ready to receive this certification, and then help agencies develop the infrastructure necessary to produce these results.

Collaborate with CHCO Council

Our prior work has found that high-performing organizations strategically use partnerships and that federal agencies, such as OPM, must effectively manage and influence relationships with organizations outside of their direct control. High-performing organizations strengthen accountability for achieving crosscutting goals by placing greater emphasis on collaboration, interaction, and teamwork across organizational boundaries, to achieve results that often transcend specific boundaries. Communicating with stakeholders is especially crucial in the public sector, where policy making and program management demand transparency and a full range of stakeholders and interested parties are concerned not only with what results are to be achieved, but also which processes are used to achieve those results.²⁵ Our prior work has identified a number of opportunities where OPM could improve its collaboration with stakeholders. In 2003, we reported that the lack of coordination between OPM and GSA, the lead agencies for the governmentwide telework initiative, created confusion for federal agencies in implementing their individual telework programs.²⁶ More recently, our review of oversight of Equal Employment Opportunity (EEO) requirements and guidance found little evidence of OPM coordination with the Equal Employment Opportunity Commission (EEOC). Insufficient understanding of OPM and EEOC's mutual roles, authority, and responsibilities resulted in a lost opportunity to realize consistency, efficiency, and public value in federal EEO and workplace diversity human capital management practice.²⁷ We have also reported that using interagency councils has emerged as an important leadership strategy in both developing policies and gaining consensus and consistent follow-through within the executive branch.²⁸ With respect to human capital reforms, we have reported that the

²⁵GAO, *Highlights of a GAO Forum: Mergers and Transformation: Lessons Learned for a Department of Homeland Security and Other Federal Agencies*, [GAO-03-293SP](#) (Washington, D.C.: Nov. 14, 2002).

²⁶GAO, *Human Capital: Further Guidance, Assistance, and Coordination Can Improve Federal Telework Efforts*, [GAO-03-679](#) (Washington, D.C.: July 18, 2003).

²⁷GAO, *Equal Employment Opportunity: Improved Coordination Needed between EEOC and OPM in Leading Federal Workplace EEO*, [GAO-06-214](#) (Washington, D.C.: June 16, 2006).

²⁸[GAO-06-861T](#).

CHCO Council should be a key vehicle for this needed collaboration and is vital to addressing crosscutting federal government strategic human capital challenges.²⁹

Executive branch agency officials said the senior executive performance appraisal certification process was a missed opportunity for OPM to better collaborate with the CHCO Council. One agency CHCO said OPM traditionally uses council meetings to present information to the CHCOs, but does not encourage discussions or seek the council's input. Another agency CHCO said the council has rarely been used to debate new human capital policies. This one-way communication does not provide a forum for agency CHCOs to contribute ideas or discuss their experiences. Some CHCOs and HR directors pointed to OPM's successful collaborative efforts through the CHCO Council, such as its assistance to agencies in the aftermath of Hurricane Katrina; however, they also told us that OPM misses opportunities to partner more effectively with agencies. An agency CHCO said that more robust policy discussion on the council would promote community building and collaboration among agencies and OPM.

According to OPM officials, OPM provided the CHCO Council with opportunities to discuss the certification process. However, some CHCOs wanted more involvement in crafting the fundamental design and applicable issues of the certification process, rather than commenting on draft regulations after the fact. While the new interim final regulations were being developed and issued in 2004, OPM provided two presentations to the full CHCO Council on the new requirements for senior executive performance appraisal systems along with periodic updates. The CHCO Council minutes show that one presentation focused on the design of the new performance appraisal system and the second on the process for obtaining certification. Agency CHCOs were able to ask questions about the proposal and make suggestions. For example, one CHCO suggested that OPM reconsider the timing of the recertification process since it coincided with agencies' annual performance appraisal cycle, and this has proven to be a key issue for the certification process. Further, CHCOs were given a very short time frame of 24 hours to review and comment on the proposed certification criteria. Executive branch agency officials overwhelmingly reinforced a need for OPM to do more to collaborate and facilitate information sharing with the council and HR directors. More

²⁹GAO, *Human Capital: Observations on Agencies' Implementation of the Chief Human Capital Officers Act*, [GAO-04-800T](#) (Washington, D.C.: May 18, 2004).

collaboration with the CHCO Council during the design phase of human capital initiatives would enable OPM to incorporate agency suggestions and build a governmentwide consensus for reform.

OPM staff involved with the certification process told us that in 2004, OPM sought input on the certification criteria from OMB and members of the CHCO Council. There were also opportunities for agency comments when the draft regulations were released and through the CHCO Council. In addition, the CHCO Council Subcommittee of Performance Management reviewed the process as well. However, most comments focused on pay flexibilities and not the certification process.

OPM has taken some steps to improve the effectiveness of the council by expanding the membership to include deputy CHCO positions. Some deputy CHCOs are also the agencies' HR directors, but others perform different deputy roles. Including deputy CHCOs will bring additional HR expertise and provide more leadership continuity to the council. An agency CHCO said OPM is taking other steps to improve collaboration with agencies, such as promoting more CHCO Academy³⁰ meetings on the certification process and reinstating executive resource forums, which help keep agency executive resources staff current on OPM's certification policies. A recent executive resource forum gave agency executive resource staff an opportunity to discuss common concerns about the certification process.

Moving forward, collaboration will be critical as human capital reforms begin to take hold across government. If OPM is to lead reform successfully, it will need to strategically use the partnerships it has available to it, such as the CHCO Council and other key stakeholders. OPM can continue to build upon its expansion of the CHCO Council and promotion of CHCO Academies and executive resource forums. These are important steps toward building a collegial environment for debating and collaborating on future human capital reforms.

³⁰The CHCO Academy was established as a forum for council members only, to discuss human resources issues, learn from one another in an informal setting, and share best practices in the strategic management of human capital. Academy sessions are scheduled throughout the year on the third Thursday of the month at OPM.

Develop Clear and Timely Guidance

Our work on high-performing organizations and successful transformations has shown that communication with customers should be a top priority and is central to forming the partnerships needed to develop and implement transformation strategies. This communication is most effective when done early, clearly, and often. Providing agencies with clear and timely guidance is one way of effectively communicating with OPM's customers. In the past, we have reported concerns with OPM's communications pertaining to their leadership in implementing governmentwide human capital initiatives and have recommended ways in which OPM could improve its guidance to federal agencies. For example, in 2003 we reported that an initial lack of clarity in telework guidance for federal agencies from OPM led to misleading data being reported on agencies' telework programs. As a result, we recognized the need for OPM to provide agencies with consistent, inclusive, and unambiguous support and guidance.³¹

The initial lack of clear and timely guidance has hindered agency implementation of senior executive performance appraisal systems. When the certification process began in 2004, OPM provided agencies with limited guidance for implementing the new regulations. Officials at a majority of the CHCO Council agencies told us they did not have enough guidance to properly prepare for meeting the certification criteria. With the release of the regulations in 2004, OPM's initial guidance consisted of a list of documents required for provisional and full certification and a sample cover letter to accompany each application. The lack of more specific guidance created confusion as agencies attempted to understand the broadly defined regulatory criteria and adjust to the requirements for certification. Agencies did not fully understand what the regulations required in order to receive certification, thus resulting in an inefficient process and increasing the workload of agency human resource staffs unnecessarily.

According to executive branch agency officials, when contacting OPM for clarification or assistance with requirements, they received conflicting answers and advice. Executive branch agency HR directors said that they sometimes received mixed messages on the certification process from OPM, and it appeared that answers would change depending on the individual an agency was working with at OPM. One agency CHCO said that rather than providing agencies with guidance, OPM tends to wait to

³¹ [GAO-03-679](#).

receive the agency submission and then determine if it meets requirements. While OPM directs agencies to its Web site and online resources, an agency CHCO said they found this information useful, but this did not fulfill all of their information needs. OPM officials we spoke with about this agreed that they need to provide clear and consistent guidance to agencies and said they are working to improve this. They said the certification of agency performance appraisal systems has been an iterative, learning process, and OPM is positioning itself to provide more guidance to agencies. For example, OPM has continued to update its annual certification guidance to provide agencies with more assistance when developing their senior executive appraisal systems for certification. The guidance for calendar year 2006 includes explicit examples from executive performance plans that comply with the certification criteria.

The continued late issuance of certification guidance in the years since the 2004 regulations were released has plagued the process by delaying the certification of agency systems. Since certification of appraisal systems runs on the calendar year, an agency's provisional certification expires on December 31st unless they submit an application and receive certification for the next calendar year. To avoid a gap in certification between calendar years, applications for appraisal system certification need to be approved before January 1st. However, OPM did not issue guidance for calendar year 2006 until January 5, 2006, causing agencies to lose time in developing their 2006 applications for review and certification. This delay was compounded when OPM clarified its guidance in a January 30, 2006, memorandum telling agencies that senior executive performance appraisal systems would not be certified for calendar year 2006 if the performance plans did not hold executives accountable for achieving measurable business outcomes. Some agencies had to revise their submissions, where necessary, to meet OPM's additional requirements, causing further delays.

Untimely guidance has been a recurring problem with OPM's implementation of the certification process, beginning when OPM initially developed the regulations for certifying appraisal systems. In late November 2003, Congress passed legislation to create the new senior executive performance-based pay system to take effect in January 2004; however, it took 8 months for OPM to publish the certification criteria included in the interim regulations when jointly released with OMB in July 2004. As a result, agencies that were certified in 2004 were unable to operate under the higher executive pay caps until late in the calendar year. In December 2004, OPM issued guidance for calendar year 2005. The guidance was issued before the start of the calendar year, but only by a few weeks. On November 1, 2006, OPM posted a memorandum to heads of

departments and agencies from the Director of OPM, notifying them of guidance for agencies seeking certification for calendar year 2007.

These delays and late revisions exacerbate the time crunch agencies face when applying for certification. According to executive branch agency officials, after agencies' performance cycles end on September 30, they essentially have 90 days until the end of the calendar year when their current certification expires if they are provisionally certified or in their final year of full certification. Within this time frame, agencies must conduct senior executive performance assessments and reviews, develop performance plans for the next performance year, and compile agency and senior executive performance data for the certification application. The late release of certification guidance adds a level of uncertainty to the process that can delay an agency's submission of its application until after the start of the calendar year. Some agencies delay preparing their certification applications because they do not know when OPM will release its annual guidance or if there will be any changes in requirements from the previous year. This creates a gap in certification after an agency's current certification expires. Until the agency's senior executive performance appraisal system is recertified, it must operate under the lower "uncertified" executive pay cap of \$152,000 in 2006 (\$13,200 less than for certified systems), while the cap on total compensation is \$183,500 (\$28,600 less than for certified systems).³²

OPM has acknowledged that the pay limitations in this certification gap can negatively impact an agency's ability to recruit, reassign, and retain qualified senior executives. Executive branch agency officials expressed similar concerns about how the certification gap limits their ability to attract and hire new executives. They also said the certification gap creates an uneven playing field between agencies with certified systems and agencies that are still awaiting recertification. In July 2006, OPM issued regulations to alleviate one of the concerns with the certification gap. The regulations now allow agencies to increase the pay rates of senior executives once the agency is certified, even if it happens after the start of the calendar year. These regulations resolve a symptom of the certification gap, but do not address the underlying causes of the time crunch agencies

³²A senior executive whose rate of basic pay is higher than the rate for uncertified systems may not suffer a reduction in pay as a result of transferring to an agency with an uncertified system or as the result of a decision to suspend a system's certification. Senior executives will continue to receive their current SES rate, but are not eligible for a pay adjustment until they are assigned to a position under a certified system.

face when applying for certification. Also, according to OPM officials, the administration has submitted a legislative proposal to Congress to eliminate the calendar year basis for certification. However, such legislation has not been introduced.

Moving forward, OPM could alleviate confusion, delays, and inefficiencies by providing agencies with clear and timely guidance for implementing human capital reforms. OPM needs to clearly communicate its expectations and provide agencies with adequate time to adjust to any changes in requirements. When designing new human capital initiatives, OPM could work with agencies to identify what guidance agencies will need and develop a timeline for when OPM will release such guidance. A different time frame for certifying performance appraisal systems could also help alleviate the time crunch agencies face when applying for certification.

Share Best Practices

We have reported that leading practices and benchmarking are important to supporting agency transformation efforts, and often include case illustrations of leading practices in our reports. In May 2003, we recommended that OPM work to more thoroughly research, compile, and analyze information on the effective and innovative use of human capital flexibilities and more fully serve as a clearinghouse in sharing and distributing information.³³ OPM began working with a contractor in the summer of 2005 to review hiring flexibilities and authorities to better determine which ones are used and not used, who is using them, and when and how they are being used; however, it is still unclear if OPM has created a “clearinghouse” of information to help agencies meet their human capital needs. In 2004, we stated that agencies need to provide OPM with timely and comprehensive information about their experiences in using various approaches and flexibilities to improve their hiring processes, and that OPM could serve as a facilitator in the collection and exchange of information about agencies’ effective practices and successful approaches.³⁴

³³GAO, *Human Capital: OPM Can Better Assist Agencies in Using Personnel Flexibilities*, [GAO-03-428](#) (Washington, D.C.: May 9, 2003).

³⁴GAO, *Human Capital: Additional Collaboration Between OPM and Agencies Is Key to Improved Federal Hiring*, [GAO-04-797](#) (Washington, D.C.: June 7, 2004).

Executive branch agency officials told us that OPM could have better facilitated the sharing of best practices for developing and implementing senior executive appraisal systems. According to OPM, in the last 3 years, it has reviewed and certified about 100 applications for appraisal system certification. OPM could use this archive of information to identify some best practices for developing certified systems, but OPM has not fully shared this information with agencies. Director Springer said OPM has met with officials from the only agency currently with full certification, the Department of Labor (DOL), to study what they have done right. However, Director Springer did not know if other agencies had taken the initiative to contact DOL to learn from their success. A senior OPM official said OPM did not provide agencies with examples of “best practices” for certification applications because OPM did not want agencies to think there was only one “right way” to get certified. We have reported that a “one size fits all” approach to human capital management is not appropriate, but we also recognized the value of documenting a range of best practices which agencies can tailor to their specific needs. One agency HR director said agencies were anxious to learn about what was going on at other agencies and did not understand why OPM was reluctant to share information. Without sufficient guidance from OPM, agencies relied on each other where possible to develop an understanding of the certification requirements. One CHCO also took the initiative to use CHCO Academy meetings to engender information sharing among agencies about the application process. However, agencies were unable to resolve uncertainties and disagreements about the regulatory requirements without clearer guidance from OPM. Executive branch agency officials said best practices for certification could help them improve the design of their performance appraisal systems. For example, executive branch agency officials said best practices for developing senior executive performance measures would help them make their performance plans more results based, as required for certification. Recently, OPM has taken steps to share information among agencies. In September 2006, OPM provided agencies’ executive resource directors with samples of agency senior executive performance plans, though OPM did not specify why these samples were selected and if they should serve as best practices for other agencies.

Moving forward, OPM should facilitate the sharing of best practices for human capital reforms among federal agencies. Director Springer has said she wants the CHCO Council to develop a best practices initiative to collect and share information on the certification process. The CHCO Council could be used to facilitate best practices for other human capital initiatives as well. Providing a forum for agencies to learn from each

others' experiences will allow agencies to share effective strategies and avoid common pitfalls.

Solicit and Incorporate Feedback

We have reported that communication during a transformation is not about just “pushing the message out.”³⁵ Given the uncertainties that performance-based pay systems may generate for agencies and employees accustomed to receiving more standardized pay increases, two-way communication is especially important in an environment of human capital reform. Creating opportunities for employees and customers to communicate concerns and experiences surrounding a transformation allows them to feel that their experiences are important and acknowledged. Once this employee and customer feedback is received, it is important to use this solicited feedback to make any appropriate changes to the implementation of the transformation. For example, OPM uses its FHCS as an important method of gathering its own employee feedback and has used this information to take actions to improve its organization. In addition, OPM recognizes that it is important to notify and involve the employees affected by personnel demonstration projects, which are similar to the senior executive performance-based pay system, though OPM does not require those implementing such demonstration projects to obtain feedback. However, according to its *Demonstration Projects Evaluation Handbook*, OPM suggests that a survey is one method that could be used to obtain employees' views on the impact of the demonstration project to help develop lessons learned that could be shared with the affected agency, as well as governmentwide. We have also reported that high-performing organizations understand they need to continuously review and revise their performance management systems through monitoring their systems, informally and formally, including listening to employees' and stakeholders' views.³⁶

OPM does not actively solicit and act on feedback from agencies on the implementation of the certification process. Executive branch agency HR directors said there was not a formal mechanism, such as a survey instrument, for agencies to provide feedback to OPM on its guidance and assistance to agencies. An OPM executive within the HCLMSA division

³⁵GAO-03-669.

³⁶GAO, *Human Capital: Symposium on Designing and Managing Market-Based and More Performance-Oriented Pay Systems*, GAO-05-832SP (Washington, D.C.: July 27, 2005).

confirmed that OPM does not have a formal feedback mechanism; however, this executive said OPM converses with agencies regularly so they did not feel the need to obtain information in this way. Informal feedback from agencies is primarily communicated through the HCOs. OPM holds regular meetings of the HCOs to discuss agency concerns. However, executive branch agency officials said OPM does not always act to address these concerns. OPM also gathers agency feedback through the CHCO Council and executive resource forums. OPM's current feedback mechanisms are important and valuable, but they could be supplemented, though not replaced, with more formal outreach. Formal feedback mechanisms can ensure that OPM gathers a full range of views by giving everyone an opportunity to comment. Formal feedback also provides a mechanism for collecting the views of clients and employees in one place, allowing OPM to track and report progress over time.

Also, OPM does not gather feedback from senior executives who are directly affected by the new performance appraisal systems and does not require agencies to survey senior executives, even though agencies are approaching the fourth year of implementation. Director Springer said OPM has not surveyed members of the SES about their attitudes towards the new system. In September 2006, she said it would be premature to conduct a survey before the system takes hold, but she did not say when the timing might be appropriate. Also, the 2006 FHCS, OPM's most recent survey that gathers employees' perceptions of federal human capital practices in their agencies, did not include any questions specifically designed to gather feedback on changes to senior executive performance systems. However, Director Springer said OPM plans to analyze a recent survey of SES members conducted by the Senior Executive Association to obtain the experience and views of SES members on the new executive systems.³⁷

Going forward, OPM should recognize the usefulness of agencies' and senior executive employees' views on the certification process and identify a systematic approach to obtain feedback on this and future

³⁷The Senior Executive Association (SEA) is a nonprofit professional association that promotes public service and advocates the interests of career federal executives (both active and retired). SEA conducted a voluntary survey to solicit SES members' experience with the new SES system and involvement in its implementation, how the new system affected the member, perceptions of how the system affected the SES members' colleagues, and views on how the new system might affect the future of human resources management in the federal government.

human capital reforms. Feedback mechanisms, such as survey or focus groups, could help OPM identify what its customers think OPM is doing well, and where OPM needs to improve. Once obtained, feedback information should be considered in developing new agency guidance and OPM should take steps to address any specific agency concerns, as appropriate.

Track Progress to Ensure Accountability

High-performing organizations understand they need to continuously review and revise their performance management systems to achieve results and accelerate change. These organizations continually review and revise their human capital management systems based on data-driven lessons learned and changing needs in the environment. We have reported that agencies seeking human capital reform should consider doing evaluations that are broadly modeled on the evaluation requirements of the OPM demonstration projects.³⁸ Under the demonstration project authority, agencies must evaluate and periodically report on results, implementation of the demonstration project, cost and benefits, impacts on veterans and other equal employment opportunity groups, adherence to merit system principles, and the extent to which the lessons from the project can be applied governmentwide. Such an evaluation could ensure accountability, facilitate congressional oversight, allow for any midcourse corrections, and assist the agency in benchmarking its progress with other efforts.

Also, monitoring the implementation of new pay systems is important because unintended consequences may arise. Organizations have found they should be open to refining their systems. For example, we have reported that in order to spread the pay increases among as many employees as possible, the Federal Deposit Insurance Corporation (FDIC) found that managers tended not to award merit pay increases to top-performing employees when they were to be promoted in the career ladder and as a result, these high-performing employees were not getting the merit pay increases they deserved. FDIC recognized that this unintended consequence needed to be corrected in future iterations of the pay system and managers needed help in learning how to make the necessary distinctions in employees' contributions.³⁹

³⁸ [GAO-05-1048T](#).

³⁹ [GAO-05-1048T](#).

As we noted in our September 2006 testimony, OPM needs to carefully monitor the implementation of agencies' senior executive performance management systems, especially those that have provisional certification.⁴⁰ This is because, as also noted earlier in this report, agencies with provisional certification have only met four of nine required criteria for certification and can still receive the pay flexibilities of the new system. In other words, agencies can receive the benefits of the new pay-for-performance system without meeting all of its requirements and having safeguards in place. We testified in October 2005 that in our view such provisional certifications should not be an option under any broad-based classification and compensation reform proposal.⁴¹

Although OPM does not have an evaluation strategy, it is taking steps to monitor how agencies are making meaningful distinctions in senior executive performance. Such distinctions are required by statute and are one of the nine criteria for certifying agencies' senior executive performance appraisal systems (as shown in app. II). Once agencies have provisional or full certification, OPM monitors this criterion by measuring the distributions of agencies' performance ratings and pay. This information helps OPM determine if agencies are making meaningful distinctions among the performance of their senior executives. Such distinctions as part of an effective performance management system are important because they allow the organization's leadership to appropriately reward those who perform at the highest level.

In its *Report on Senior Executive Pay for Performance for Fiscal Year 2005*, OPM stated that the data indicate that federal agencies are taking seriously the requirement to develop rigorous appraisal systems and to make meaningful distinctions in performance ratings and pay. All reporting agencies have moved away from pass/fail appraisal systems and now have at least one performance level above "fully successful." In fiscal year 2005, 43 percent of career SES governmentwide were rated at the highest performance level, compared to 75 percent in 2003 prior to the implementation of the SES pay-for-performance system. Further, OPM reported for fiscal year 2005 that the percentage of SES rated at the highest performance level declined 16 percent from the prior year. OPM also reported that the largest increases in salary went to SES rated at the highest performance level. Although SES pay and performance award

⁴⁰GAO-06-1125T.

⁴¹GAO-06-142T.

amounts vary by agency based on factors such as compensation strategy, funding, and agency performance levels, OPM believes these general trends suggest a further refinement may be occurring in the process of distinguishing outstanding performers.

Developing an evaluation strategy that works within OPM's existing required systems—such as the Human Capital Assessment and Accountability Framework (HCAAF)⁴²—is one approach that OPM can take to track agencies' progress in implementing their senior executive performance systems as well as hold them accountable for meeting OPM's certification criteria. For example, DOD officials suggested that OPM could work with agencies to develop metrics under the HCAAF to determine whether agency performance management systems were making meaningful distinctions based on relative performance or other such important criteria. These metrics could be reported in current systems, such as the President's Management Agenda (PMA).⁴³

Because OPM carries out its role in a decentralized environment where the results of its efforts largely take place at federal agencies outside its direct control, it is particularly important that OPM develop a strategy to track agencies' progress in meeting its human capital reform goals. OPM could require evaluations that are broadly modeled on the evaluation requirements of the OPM demonstration projects. It can work within its currently required systems to make reporting requirements less onerous and part of agencies' routines. As we testified in September 2006, in the future, OPM should maintain a focus on continuous improvement of agency systems by monitoring the certification process, determining whether any obstacles are impeding agencies from receiving full certification, and taking appropriate measures to address them.⁴⁴

⁴²The HCAAF is a framework that OPM has developed over the last several years to help agencies develop and implement effective human capital management systems and improve their human capital management practices. The HCAAF fuses strategic human capital management to merit system principles and other civil service laws, rules, and regulations.

⁴³The PMA has identified five governmentwide initiatives that are interrelated and support each other—improved financial performance, strategic management of human capital, budget and performance integration, electronic government, and competitive sourcing. OPM is responsible for monitoring agency progress of the human capital initiative.

⁴⁴[GAO-06-1125T](#).

Conclusions

Significant reforms are already underway to modernize the federal government's human capital management systems to better position agencies to meet the challenges of the 21st century. OPM is taking steps to better prepare itself and agencies for governmentwide human capital reform through the implementation of the senior executive performance appraisal system certification process, other performance management initiatives, such as its PAAT and beta sites, and other governmentwide human capital initiatives. These reform efforts present an opportunity for OPM to evaluate and learn from its approach to implementing these initiatives—lessons that can be applied to ongoing and future human capital reforms. OPM's workforce and succession planning efforts are also vital to ensuring it has the internal capacity to lead and implement reforms. This includes building and maintaining the needed skills and competencies for OPM's evolving role in assisting agencies. While OPM has taken steps through its planning efforts to assess its workforce needs, it can better prepare its workforce by reexamining its competencies in light of its updated strategic management framework in order to meet future demands.

Agencies have raised concerns with OPM's workforce capacity in general, and more specific concerns with OPM's implementation of the senior executive performance appraisal system. These include the lack of clear and timely guidance, the need for more sharing of best practices, and the year-end time crunch agencies face gathering the required information for OPM to certify their systems. Further, OPM does not obtain formal feedback from agencies on the implementation of the executive systems to assist OPM in better understanding agency concerns and the difficulties they face with implementation. Although OPM recognizes the value of obtaining employees' views on reform efforts, as it encouraged with past demonstration projects, it has not encouraged obtaining such feedback for the executive performance system. In addition, having an evaluation strategy to monitor agencies' overall results of the senior executive performance system could help ensure accountability and provide transparency for Congress, other agencies, and stakeholders.

Recommendations for Executive Action

To better align OPM's workforce skills and competencies for future human capital reform efforts, we recommend that the Director of OPM:

- Reexamine OPM's agencywide skills and competency assessment in light of its updated strategic management documents.

To assist executive branch agencies in meeting the requirements for the certification of their senior executive performance appraisal systems, we recommend that the Director of OPM:

- Develop and publish a timeline for the issuance of certification guidance. This timeline should be developed with the input of the CHCO Council and provide agencies with adequate time to adjust to any changes in guidance.
- Evaluate alternatives that could remedy the year-end time compression that agencies face when trying to meet OPM application requirements and avoid a gap in certification.
- Work with the CHCO Council to develop a formal mechanism for sharing leading practices for implementing human capital initiatives, such as the senior executive performance appraisal certification and other performance management reform initiatives. This forum should include an adequate range of examples and best practices so as not to promote one-size-fits-all solutions.
- Develop a formal feedback mechanism to obtain agencies' views on OPM's implementation of the certification process. OPM should utilize this feedback to identify common agency concerns and develop action plans to address these concerns.
- Work with executive branch agencies to develop a systematic approach for obtaining employee attitudes towards human capital reforms.
- Develop a strategy to allow OPM, other executive agencies, and Congress to monitor the progress of implementation of the senior executive performance-based pay system.

Agency Comments and Our Evaluation

We provided a draft of this report to the Director of OPM for review and comment. We received a written response from the Director, which is reprinted in appendix IV. The Director stated that OPM has made progress toward achieving its operational and strategic goals, but neither agreed nor disagreed with our recommendations.

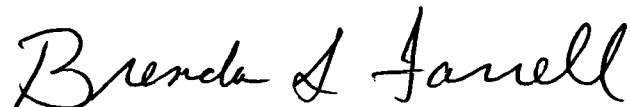
Director Springer provided a number of informative comments describing progress OPM has made towards achieving its planned goals, and initiatives undertaken to assist federal agencies with meeting their hiring demands of the future. Director Springer said OPM has made progress towards achieving its operational and strategic goals since she became Director of OPM. The Director provided information that while beyond the

scope of the report, nonetheless is helpful in understanding the context in which OPM is operating. Specifically, she commented that OPM associates have worked together and with agencies to achieve the objectives that are tied to OPM's *Strategic and Operational Plan, 2006-2010*, and since March 2006, OPM has achieved its plan's objectives, on time or ahead of schedule. Also, OPM provided a number of technical comments and, where appropriate, we have made changes to the report language to reflect these comments.

We are sending copies of this report to the Director of OPM, the Director of OMB, and other interested parties. Copies will be made available to others upon request. This report is also available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staffs have any questions concerning this report, please contact me at (202) 512-6806. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix V.

Sincerely yours,



Brenda S. Farrell
Acting Director, Strategic Issues

Appendix I: Scope and Methodology

To identify lessons learned to inform the Office of Personnel Management's (OPM) capacity to lead and implement human capital reform, we reviewed OPM's implementation of the senior executive performance appraisal system certification process. We reviewed and analyzed key documents including the legislation that authorized the new senior executive performance-based pay system and the regulations for the appraisal system certification process that were jointly issued by OPM and the Office of Management and Budget (OMB). We also reviewed and analyzed the subsequent guidance issued by OPM to agencies to prepare their certification applications, policy memos from OPM to agencies, and other documentation related to the certification process. To gain an agency perspective of the certification process and to a limited degree on other performance management initiatives, such as the Performance Appraisal Assessment Tool (PAAT) and the performance management beta sites, we interviewed 22 of the 23 members of the Chief Human Capital Officers Council and/or their corresponding agency HR directors. The one agency that was not available for an interview provided us with written responses to our questions. In addition, we conducted interviews with OPM's five associate directors and other senior-level staff, such as the Chief Financial Officer and Chief Human Capital Officer, to obtain their views of OPM's management practices. We were briefed by the OPM Director and other OPM officials on the OPM *Strategic and Operational Plan, 2006-2010* and aspects of OPM's human capital strategies and initiatives. We also interviewed staff from OMB related to their role in the performance appraisal system certification process.

To evaluate OPM's workforce capacity, we interviewed OPM's former and current Chief Human Capital Officers and analyzed the OPM *Strategic and Operational Plan, 2006-2010*. To understand how OPM's workforce is aligned to support the implementation of potential reforms, we analyzed a number of internal OPM documents such as its August 2006 *Corporate Leadership Succession Management Plan* and *A Plan for the Strategic Management of OPM's Human Capital* fiscal years 2004-2007. As the *Plan for the Strategic Management of OPM's Human Capital* fiscal years 2006-2007 was issued at the conclusion of our review, we were not able to analyze this document.

To evaluate OPM's efforts to build agency infrastructure, we reviewed documents related to OPM's PAAT and the performance management beta site initiatives. We selected these initiatives because of similarities to the certification process and their likelihood to yield tangible lessons related to OPM's capacity to lead future reforms.

To evaluate OPM's feedback mechanisms, we reviewed survey questions included in the 2004 and 2006 Federal Human Capital Survey (FHCS). The 2006 survey was launched in June 2006 and results are not yet available.

To assess OPM's measures for tracking progress, we analyzed operational goals in the OPM *Strategic and Operational Plan, 2006-2010*. We also reviewed OPM's measures of senior executive performance ratings and pay in its *Report on Senior Executive Service Pay for Performance for Fiscal Year 2005*.

We leveraged our work that resulted in our June 2006 testimony on OPM's internal capacity.¹ We used the 2004 FHCS, the latest available survey data, and summaries of OPM's 2005 focus groups to assess employee views of OPM's organizational capacity. We reviewed OPM's analysis of its 2004 FHCS results and conducted our own analyses of survey results using 2002 and 2004 FHCS data sets provided to us by OPM. On the basis of our examination of the data and discussions with OPM officials concerning survey design, administration, and processing, we determined that the data were sufficiently reliable for the purpose of our review. We analyzed summaries of OPM employee focus groups that OPM conducted in fall 2005 to understand factors contributing to employees' responses on the 2004 FHCS. We used the participant comments from these focus groups to illustrate employee perspectives. We also analyzed the May 2006 action plans developed by OPM to address issues identified in the focus groups.

Other documents reviewed included our previous work related to OPM, high-performing organizations, organizational transformation, and human capital management reforms. We also reviewed GAO's previous recommendations on a range of issues related to OPM's human capital leadership role and internal management challenges.

We conducted our work from October 2005 to September 2006 in accordance with generally accepted government auditing standards.

¹[GAO-06-861T](#).

Appendix II: Description of the Senior Executive Performance-based Pay System Certification Process

The new senior executive pay system raises the cap on base pay and total compensation. For 2006, the caps are \$152,000 for base pay (Level III of the Executive Schedule) with a senior executive's total compensation not to exceed \$183,500 (Level I of the Executive Schedule). If an agency's senior executive performance appraisal system is certified by the Office of Personnel Management (OPM) and the Office of Management and Budget (OMB) concurs, the caps are increased to \$165,200 for base pay (Level II of the Executive Schedule) and \$212,100 for total compensation (the total annual compensation payable to the Vice President).

To qualify for senior executive pay flexibilities, agencies' performance appraisal systems are evaluated against nine certification criteria. As shown in table 2, the certification criteria jointly developed by OPM and OMB are broad principles that position agencies to use their pay systems strategically to support the development of a stronger performance culture and the attainment of the agency's mission, goals, and objectives.

There are two levels of performance appraisal system certification available to agencies: full and provisional. To receive full certification, the design of the systems must meet the nine certification criteria and agencies must provide documentation of prior performance ratings to demonstrate compliance with the criteria. Full certification lasts for 2 calendar years. Agencies can receive provisional certification if they have designed but not yet fully implemented a senior executive performance appraisal system, or do not have a history of performance ratings that meets the certification criteria. Provisional certification lasts for 1 calendar year.

Appendix II: Description of the Senior Executive Performance-based Pay System Certification Process

Table 2: Senior Executive Performance Appraisal System Certification Criteria

Summary of certification criteria for senior executive appraisal systems	
Alignment	Individual performance expectations must be linked to or derived from the agency's mission, strategic goals, program/policy objectives, and/or annual performance plan.
Consultation	Individual performance expectations are developed with senior employee involvement and must be communicated at the beginning of the appraisal cycle.
Results	Individual expectations describe performance that is measurable, demonstrable, or observable, focusing on organizational outputs and outcomes, policy/program objectives, milestones, etc.
Balance	Individual performance expectations must include measures of results, employee and customer/stakeholder satisfaction, and/or competencies or behaviors that contribute to outstanding performance.
Assessments and guidelines	The agency head or a designee provides assessments of the performance of the agency overall, as well as each of its major program and functional areas, such as reports of agency's goals and other program performance measures and indicators, and evaluation guidelines based, in part, upon those assessments to senior employees, appropriate senior employee rating and reviewing officials. The guidance provided may not take the form of quantitative limitations on the number of ratings at any given rating level.
Oversight	The agency head or designee must certify that (1) the appraisal process makes meaningful distinctions based on relative performance; (2) results take into account, as appropriate, the agency's performance; and (3) pay adjustments and awards recognize individual/organizational performance.
Accountability	Senior employee ratings (as well as subordinate employees' performance expectations and ratings for those with supervisor responsibilities) appropriately reflect employees' performance expectations, relevant program performance measures, and other relevant factors.
Performance differentiation	Among other provisions, the agency must provide for at least one rating level above Fully Successful (must include an Outstanding level of performance), and in the application of those ratings, make meaningful distinctions among executives based on their relative performance.
Pay differentiation	The agency should be able to demonstrate that the largest pay adjustments and/or highest pay levels (base and performance awards) are provided to its highest performers, and that, overall, the distribution of pay rates in the SES rate range and pay adjustments reflects meaningful distinctions among executives based on their relative performance.

Source: GAO analysis of OPM and OMB regulations.

OPM's role in the certification process begins when an agency submits a certification application to OPM. If fully certified, the certification is good for the remainder of the calendar year in which the agency applied, as well as all of the following calendar year. If provisionally certified, an agency's certification is only good for the calendar year in which it applied. For example, if an agency is provisionally certified in October 2005, its certification would expire in December 2005.

To ensure the agency's submission is complete, the agency's OPM contact—the Human Capital Officer (HCO)—first verifies that the

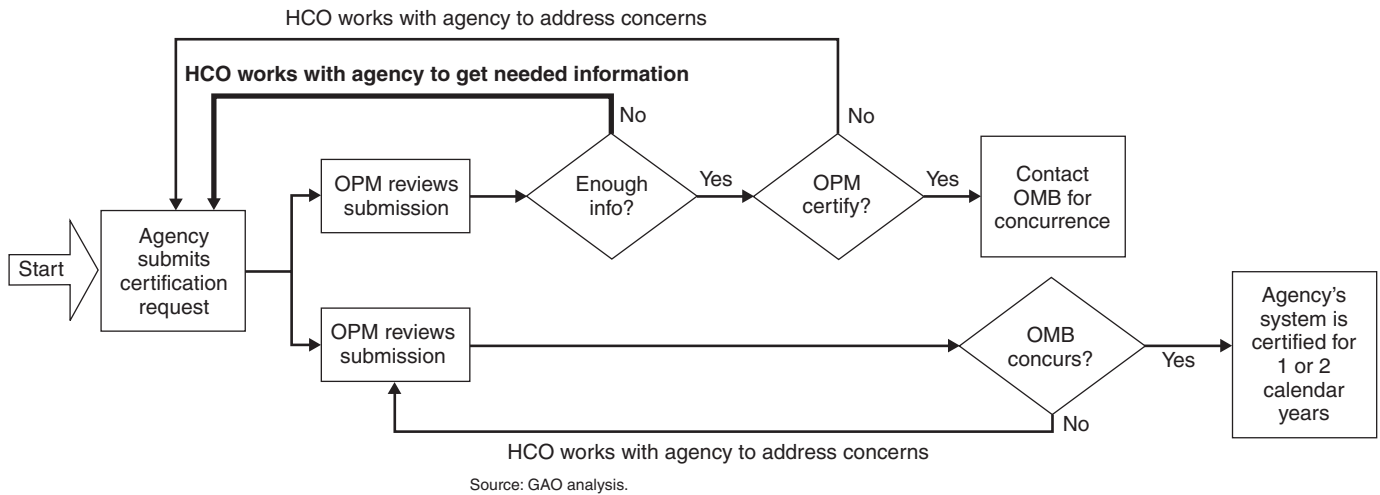
application contains the required materials and documents. If complete, the HCO sends copies to the two OPM divisions responsible for reviewing the application, the Human Capital Leadership and Merit System Accountability (HCLMSA) division and the Strategic Human Resources Policy (SHRP) division, and an additional copy to OMB. The agency's submission is reviewed independently by representatives within HCLMSA and SHRP to bring different perspectives to the review.

The submissions are evaluated against the nine certification criteria, but each review team has its own method for analyzing the application. After an initial review, the reviewers from HCLMSA and SHRP hold an informal meeting to discuss the submission. After a more thorough review, the reviewers meet again in a formal panel along with the agency's HCO and decide whether they have enough information to reach a certification decision about the agency. If the panel concludes there is not enough information to reach a decision, the HCO will request that the agency provide any missing or additional supporting information. If the panel decides there is sufficient information to reach a decision, it will either certify or reject the application.

When an application is rejected, the HCO works with the agency to help modify its performance appraisal system so that it meets the criteria. If the application is approved by OPM, the HCO contacts OMB for concurrence. OMB uses the same nine criteria to evaluate agency applications, but primarily focuses on measures of agency performance. If OMB concurrence is not achieved, the HCO works with the agency to address OMB's concerns until resolution is reached. Once OMB concurs, the Director of OPM certifies the agency's performance appraisal system and the agency is formally notified with a letter. The HCO also provides additional comments to the agency on their system and identifies any improvement needs. For example, these comments may direct the agency to focus more on making meaningful distinctions in performance. Figure 1 provides an overview of the certification process.

Appendix II: Description of the Senior Executive Performance-based Pay System Certification Process

Figure 1: Overview of Senior Executive Performance Appraisal System Certification Process



Appendix III: Agency Certification Status for Calendar Years 2004, 2005, and 2006 as of October 2006

Agency/board	System (SES or SL/ST)	1-year provisional (P) or 2-year full (F) certification received		
		2004	2005	2006
Agency for International Development	SES	P	P	^a
Broadcasting Board of Governors	SES	^a	P	^a
Consumer Product Safety Commission	SES	^a	P	P
Department of Agriculture	SES	P	P	P
Department of Commerce	SES	P	P	P
Department of Defense	SES	^a	^a	P
Department of Defense	SL/ST	^a	^a	P
Department of Education	SES	^a	P	P
Department of Energy	SES	P	P	P
Department of Health And Human Services	SES	P	P	P
Department of Homeland Security	SES	^a	P	P
Department of Housing and Urban Development (HUD)	SES	P	P	^a
HUD Office of the Inspector General	SES	P	P	P
Department of Interior	SES	P	P	P
Department of Justice	SES	P	P	P
Department of Labor	SES	P	P	F (2006/2007)
Department of State	SES	P	P	^a
Department of Transportation	SES	P	P	P
Department of Treasury	SES	P	P	P
Department of Veterans Affairs	SES	P	P	P
Environmental Protection Agency	SES	P	P	P
Equal Employment Opportunity Commission	SES	P	P	^a
Federal Communications Commission	SES	P	P	P
Federal Energy Regulatory Commission	SES	P	P	P
Federal Trade Commission	SES	P	P	P
General Services Administration	SES	F (2004/2005)		P
Merit Systems Protection Board	SES	P	P	P
National Aeronautics and Space Administration (NASA)	SES	P	P	P
NASA	SL/ST	^a	P	^a
NASA Office of the Inspector General	SES	^a	^a	P
National Endowment for the Arts	SES	P	P	^a
National Labor Relations Board	SES	P	P	^a
National Science Foundation	SES	P	P	P

**Appendix III: Agency Certification Status for
Calendar Years 2004, 2005, and 2006 as of
October 2006**

Agency/board	System (SES or SL/ST)	1-year provisional (P) or 2-year full (F) certification received		
		2004	2005	2006
National Transportation Safety Board	SES	^a	^a	P
Nuclear Regulatory Commission	SES	P	P	^a
Office of Government Ethics	SES	^a	P	P
Office of Management And Budget	SES	^a	P	P
Office of National Drug Control Policy	SES	P	P	P
Office of Navajo and Hopi Indian Relocation	SES	^a	P	^a
Office of Personnel Management	SES	P	P	P
Patent and Trademark Office/Commerce	SES	P	P	^a
Pension Benefit Guarantee Corporation	SL/ST	F (2004/2005)		P
Railroad Retirement Board	SES	P	P	P
Small Business Administration (SBA)	SES	P	P	^a
SBA Office of the Inspector General	SES	P	P	^a
Social Security Administration	SES	P	P	^a
Surface Transportation Board	SES	^a	^a	P

Source: GAO analysis based on OPM data.

^aAgency did not submit an appraisal system application, submitted an application but was not approved, or withdrew an application for OPM's review.

Appendix IV: Comments from the Office of Personnel Management



The Director

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

November 9, 2006

The Honorable David Walker
Comptroller General
U.S. Government Accountability Office

Washington, DC

Dear General Walker:

Thank you for the opportunity to provide comments in response to the Government Accountability Office draft report entitled *Human Capital Reform: New Executive Performance-based Pay System Provides Key Lessons Learned for OPM's Leadership of Future Reforms* (GAO-07-90).

Since I became Director of the Office of Personnel Management (OPM), my management objective has been to raise the agency's performance level by instituting business disciplines and practices that would enable us to reach my ultimate goals for OPM – operational excellence and strategic creativity. I am confident that we have made demonstrable progress and are beginning to realize those goals.

Changes of this type do not happen overnight. OPM took steps to revitalize our senior leadership and engage our staff in a way that had not been done in the past. We also set a new course – through the collaborative development of a new set of strategic and operational goals.

OPM's 2006–2010 Strategic and Operational Plan is distinctive in its clarity and specificity. It is dominated by an action-oriented to-do list of approximately 170 deliverables, each with a due date. OPM associates have worked together and with agencies throughout Government to achieve objectives that are tied in some measure to the plan. This direct linkage has created a level of accountability and ownership – particularly for the senior executives whose compensation is a function of performance – that has given greater assurance that goals will be achieved and creates an "esprit de corps" environment.

Since its introduction in March, we have achieved every plan objective, on time or ahead of schedule. By achieving these tangible and important deliverables, we are creating a success culture at OPM – one that we reinforce monthly when each new group of goals is accomplished.

www.opm.gov

Our mission is to ensure the Federal Government has an effective civilian workforce

www.usajobs.gov

Comptroller General Walker

2

OPM is delivering on our responsibility to lead Federal workforce human capital planning and reform efforts. Releasing installments of our planning guidance for a possible pandemic influenza event in advance of President Bush's August deadline is just one example of our enhanced service approach. It is indicative of our commitment to timely, as well as accurate, guidance to the human capital management community and has been well-received across the executive branch.

While proceeding on the path to organizational excellence, OPM has broken new ground in leading the Federal Government's efforts to ensure there is an effective civilian workforce into the future. We have introduced Federal agencies to concepts for reaching and hiring the next generation of civilian employees, and have initiated a three-pronged approach for bringing workers to the Government, including a media campaign to raise awareness of the wide range of Federal civilian job opportunities, the new Career Patterns approach for recruiting and hiring, and the development of a hiring toolkit to help speed the Federal hiring process. With these initiatives, OPM has positioned Federal agencies to meet the hiring demands of the future - demands that will increase dramatically as we face the retirement eligibility of 60 percent of our workforce over the next ten years.

Although there is more to be done, the work to date is a significant accomplishment. As we look to the future, OPM will continue to improve our guidance to agencies, to strengthen our leadership and oversight of agency human capital practices, and to learn and share the lessons from both existing and new personnel systems as we chart the course for the future of the civil service.

I am providing specific technical corrections to the draft report and would ask for your consideration of these changes. In addition, I look forward to providing to the Congress specific responses to your key findings.

Sincerely,



Linda M. Springer
Director

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

Brenda S. Farrell, (202) 512-6806 or farrellb@gao.gov.

Acknowledgments

In addition to the contact named above, Trina Lewis, Assistant Director; Thomas Beall; Carole J. Cimitile; William Colvin; Elizabeth Curda; S. Mike Davis; William Doherty; Charlene Johnson; Jeffrey McDermott; Michael Volpe; Katherine H. Walker; and Gregory H. Wilmoth made major contributions to this report.

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