

GAO

## Testimony

Before the Senate Committee on Governmental Affairs

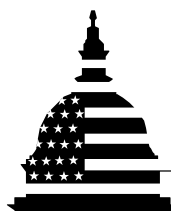
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GAO

# Transformation, Challenges, and Opportunities

Statement of David M. Walker  
Comptroller General of the United States



G A O

Accountability ★ Integrity ★ Reliability



Highlights of [GAO-03-1167T](#), a testimony before the Senate Committee on Governmental Affairs

## Why GAO Did This Study

The Committee sought GAO's views on GAO's accomplishments, challenges, and opportunities for its oversight hearing. The Committee also sought GAO's views on its latest human capital proposal, which has been introduced in the Senate as S. 1522.

## What GAO Recommends

GAO recommends that the Committee act on S. 1522 promptly and that the Congress enact the GAO Human Capital Reform Act of 2003 before it adjourns this year.

GAO believes that its latest human capital proposal is both well reasoned and reasonable. There are compelling reasons why GAO ought to be given this additional human capital authority. These include the fact that GAO already has a hybrid pay system established by the authority that the Congress granted it over two decades ago, the proposal is modest if viewed in light of authorities granted and requested by other agencies, and GAO already has a number of key systems and safeguards in place and has plans to build in additional safeguards.

GAO has conducted extensive external and internal outreach efforts on this proposal. GAO respectfully requests the Committee's support and prompt passage by the Congress.

[www.gao.gov/cgi-bin/getrpt?GAO-03-1167T](http://www.gao.gov/cgi-bin/getrpt?GAO-03-1167T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gene Dodaro at (202) 512-5600 or [dodarog@gao.gov](mailto:dodarog@gao.gov).

# GAO

## Transformation, Challenges, and Opportunities

### What GAO Found

As an arm of the legislative branch, GAO exists to support the Congress in meeting its constitutional responsibilities to improve the performance and ensure the accountability of the federal government for the American people. Established in 1921 by the Budget and Accounting Act to follow the federal dollar and ensure that it is spent in an economical, efficient, and effective manner, GAO has evolved over its 82-year history to meet the changing needs of the Congress and the nation. Faced with a budgetary reduction in the mid-1990s that had to be implemented over a 2-year period, GAO undertook measures that, while necessary, also increased the risk that the agency would not be positioned well to serve the Congress in the future.

To effectively position itself for the future, GAO has been undergoing a major transformation effort over the past 4 years that even in the best of organizations takes 7 or more years to implement. Based on its strategic plan developed in consultation with the Congress, GAO's effort is focused on three specific areas: achieving results, serving the client, and investing in people. GAO has realigned the agency to eliminate a management layer, consolidate 35 issue areas into 13 teams, and reduce its field offices from 16 to 11. Today, GAO is a significantly smaller organization—40 percent smaller than in 1992—with slightly over 3,250 staff on board. GAO has worked with its appropriations committees to obtain targeted funding for such particularly acute risk areas as human capital and information technology. GAO also launched a range of internal and external initiatives that have helped it become more strategic, results-oriented, partnerial, integrated, flexible, responsive, employee-oriented, and externally focused. Since 1998, GAO's work has produced a steady increase in financial benefits and nonfinancial benefits including many improvements in government operations. For example, in fiscal year 2002, GAO's work helped achieve \$37.7 billion in financial benefits—a \$88 return for every dollar invested in GAO. In addition, GAO's work informed the debate and the resulting legislation relating to such areas as our nation's national security, homeland security, economic security, and the financial security of Americans.

GAO faces a number of challenges. Issues that GAO is either watching closely and/or believes require congressional attention include supply and demand imbalances, unfunded mandates, access to records, the Deputy Comptroller General selection process, performance and accountability community coordination, and additional bid protest volume. S. 1522, the GAO Human Capital Reform Act of 2003, which mirrors H.R. 2751, which has been marked-up and reported to the full House Government Reform Committee, is urgently needed to help address GAO's challenges. Some specific initiatives that the Comptroller General plans to focus on for the future include helping the Congress address challenges relating to the long-term fiscal outlook, transforming government and how government does business, and making GAO the federal employer of choice and the gold standard for a world class professional services organization.

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Madam Chair and Members of the Committee:

I am pleased to appear before you today—almost 5 years after becoming the seventh Comptroller General of the United States—to discuss what GAO has accomplished during my tenure thus far, the challenges we face at GAO, including why passage of S. 1522, the GAO Human Capital Reform Act, is an integral part of helping GAO prepare for those challenges, and what we are contemplating for the future. Before I begin, I would like to commend you for holding this oversight hearing, the first oversight hearing this Committee has held on GAO since 1995. In addition, Madam Chair, I would like to thank both you and Sen. Voinovich for sponsoring S. 1522, the GAO Human Capital Reform Act, and for introducing the bill before the August recess.

When I became Comptroller General in November 1998, I found an organization, with a long-standing reputation for doing good work and a talented workforce, that was doing many things right. However, the agency was in need of revitalization because it had not had a confirmed agency head for more than 2 years and had undergone many years of downsizing and severe budgetary reductions. I also found an organization that, in my opinion, was still too hierarchical, process-oriented, “siloe,” internally focused, and somewhat risk adverse. My consultations with congressional members and staff, external entities in both the public and private sectors, and GAO staff led me to the belief that GAO must do things differently as we move forward in order to continue to maximize our value to the Congress and the country, especially in view of the strong likelihood of constrained resources and client demands. Specifically, we needed to take steps to transform GAO to make it more results-oriented, more client focused, more partnerial, more externally aware, more transparent, more strategic, more employee oriented, and more constructive in dealing with those who are the subject of our work. Over the past 5 years, we believe that we have accomplished much. Nevertheless, we recognize that we still have much to do and welcome and value the comments of every Member of this Committee in helping us become and stay a model federal agency that supports the Congress’ important responsibilities under the U. S. Constitution.

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## GAO’s Evolving Role

Established in 1921 by the Budget and Accounting Act to follow the federal dollar and ensure that it is spent in an economical, efficient, and effective manner, GAO has evolved over its 82-year history to meet the changing needs of the Congress and the nation. Today’s GAO is profoundly different

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in organization than the one established in 1921. For example, over the years, GAO has changed from an entity that once

- operated as an independent entity (the law did not state that GAO was to be part of the legislative branch) to one that is recognized as an independent agency within the legislative branch whose primary client is the institution of the Congress;
- audited the government's vouchers to one that evaluates the efficiency and effectiveness of a wide range of federal policies and programs;
- performed work mostly of a self-initiated basis to one where 89 percent of its work in fiscal year 2002 was either mandated or requested by the Congress;
- conducted work primarily in the area of oversight to one that now performs work in the areas of oversight, insight, foresight, and legal/adjudicatory activities.
- employed principally voucher examiners to an organization that employs a highly educated, skilled, and diverse professional staff with degrees in a variety of academic disciplines, such as accounting, law, engineering, public administration, business administration, computer science, economics, medicine, and social and physical sciences.

Although today's GAO is different from that of 1921, it has remained faithful throughout its history to its original mandate of assuring the government's accountability to the American people. In addition, GAO has historically defended its ability to conduct and report its work in an independent, objective, professional, and nonpartisan manner in order to maintain the credibility that an "honest broker" must have in order to have its information, analyses, and judgments trusted by lawmakers, policymakers, and the American people.

GAO has benefited from the past leadership of several of my predecessors. In particular, I would like to commend my most recent predecessors, Elmer B. Staats, who served from 1966 to 1981 and, Charles A. Bowshe, who served from 1981 to 1996, both of whom accomplished a great deal during their 15 year tenures. Mr. Staats strengthened GAO's emphasis on program evaluation and policy analysis so that GAO would be better equipped to review the expanded social programs of the Great Society. He also promoted progress in federal financial and program accountability both

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domestically and internationally. In addition, Mr. Staats was responsible for the United States' joining the International Organization of Supreme Audit Institutions (INTOSAI), an organization composed of national audit offices of 184 nations who share knowledge and expertise on an ongoing basis. Mr. Bowsher championed federal financial management reform, in general, and the Chief Financial Officers (CFO) Act, in particular. He also initiated GAO's high-risk series. In the human capital arena, it was Mr. Staats who in 1980 successfully gained GAO's legislative authority to establish a broad-banding and pay for performance system that Mr. Bowsher subsequently was able to implement in 1989. It is because of their leadership efforts that GAO had certain initial human capital tools and flexibilities for over two decades that many executive branch agencies are either just requesting or recently received and was able to exercise them.

Today, GAO is an agency uniquely poised to serve the Congress with the information it needs to address the full range of important issues and challenges our nation faces in a complex, rapidly changing, and increasingly interdependent world. We examine a broad range of federal activities and programs, publish thousands of reports and other documents annually, and provide a number of other services to the Congress. We also look at national and international trends and challenges to anticipate their implications for the Congress and our country. By making recommendations to improve the practices and operations of government agencies, we contribute not only to the increased effectiveness of federal spending, but also to the enhancement of the taxpayers' trust and confidence in their federal government.

For us, achieving our goals and objectives rests on providing professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced information to the Congress and the public at large. We develop and present this information in a number of ways to support the Congress, including the following:

- evaluations of federal policies and the performance of agencies;
- oversight of government operations through financial and other management audits to determine whether public funds are spent efficiently, effectively, and in accordance with applicable laws;
- insight related work that involves determining which programs work and which do not;

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- foresight related work that is future oriented and involves identifying key trends and emerging challenges before they reach crisis proportions;
  - reviews and analyses of agencies' budgets in support of the appropriations process;
  - investigations to assess whether illegal or improper activities are occurring;
  - analyses of the financing for government activities;
  - legal/adjudicatory activities, including legal opinions to determine whether agencies are in compliance with applicable laws and regulations and resolution of bid protests by disappointed bidders seeking to obtain federal contracts;
  - policy analyses to assess needed actions, develop options, and note the implications of possible actions;
  - “constructive engagements” whereby we help agencies make progress in key areas by “helping them to help themselves” through the issuance of self-help guides, benchmarking and best practice studies, etc.; and
  - additional assistance to the Congress in support of its oversight and decision- making involving legislative branch entities, activities, and functions.

See appendix I for graphics describing GAO past and present.

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## GAO'S Downsizing

The 1990s was a difficult period for the GAO. Beginning in 1992, GAO began an over 5-year period of significant staff downsizing. During the mid-1990s, GAO underwent a 25 percent budgetary reduction that had to be implemented over a 2-year period. In order to absorb such a large budgetary reduction within such a short period of time, GAO undertook a number of measures such as closing 5 field offices (including our European and Far East field offices) and 4 sublocations in 1995. GAO also reduced its workforce, using authority granted by the Congress, by granting voluntary early retirements and buyouts and by conducting a reduction in force or “layoffs” of staff in select field offices and in Washington, D.C. While the measures taken allowed the agency to address the immediate budgetary

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challenge, they also increased the risk that GAO would not be positioned well to serve the Congress in the future. For example, GAO's hiring freeze at the entry level produced an over 5-year gap in the workforce pipeline that affected a smooth succession and resulted in a top heavy workforce. GAO also significantly reduced its investments in technology by curtailing upgrades of hardware and software, which adversely affected its ability to apply technology to perform work better, faster, and more efficiently. GAO also eliminated bonuses and reduced other investments in its people.

Today, we have a significantly smaller staff—40 percent smaller than in 1992—with slightly over 3,250 staff on board. About 75 percent of our staff are located in our headquarters in Washington, D. C. and 25 percent in 11 field offices around the country. While maintaining approximately the same number of staff, we have been able to accomplish much in support of the Congress. How was this made possible? First, we conducted a comprehensive outreach and risk assessment shortly after I became the Comptroller General. We identified risks that could undermine our ability to support the Congress in future years, such as in the areas of human capital and information technology and worked with our appropriations committees to obtain targeted funding for those areas. We also determined that the agency needed to undertake a transformation that even in the best of organizations typically takes 7 or more years to accomplish. Critical to that transformation was the development of a strategic plan that would provide the agency a clear set of strategic goals and objectives.

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## Becoming More Strategic, Partnerial, and Externally Aware

Fortunately, before my becoming Comptroller General, GAO had recognized the need to prepare a strategic plan. We made this a top priority after my appointment as Comptroller General. GAO's strategic plan, which is developed in consultation with the Congress, is forward looking and built on several key themes or trends that relate to the United States and our position in the world community. GAO's strategic plan continues to be a model for others, a framework for aligning our organization and resources, and a basis to help inform client requests and identify work initiated on the Comptroller General's authority (also termed research and development work). Our strategic planning process provides for updates every 2 years, including an ongoing analysis of emerging conditions and trends, extensive consultation with congressional clients and outside experts, and assessments of internal capacities and needs.

Our first strategic plan, issued in the spring of 2000, set forth the issues around which we needed to focus and develop our resources to effectively

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serve the Congress in covering the period 2000-2005. We updated the plan in fiscal 2002, carrying forward the following four strategic goals, and will retain these goals for our latest update scheduled to be issued in early 2004 (see appendix I of this statement for our strategic plan framework):

- Goal 1: Address current and emerging challenges to the well-being and financial security of the American people.
- Goal 2: Respond to changing security threats and the challenges of global interdependence.
- Goal 3: Help transform the government's role and how it does business to meet 21<sup>st</sup> century challenges.
- Goal 4: Maximize the value of GAO by being a model federal agency and a world-class professional services organization.

Because achieving our strategic goals and objectives also requires strategies for coordinating with other organizations with similar or complementary missions, we use (1) advisory panels and other bodies (e.g., the Comptroller General Advisory Board, the Educators' Advisory Panel, the Accountability Advisory Board) to inform GAO's strategic and annual work planning and (2) initiate and support collaborative national and international audit, technical assistance, and other knowledge-sharing efforts. In order to leverage our resources and tap certain expertise not resident in GAO, we have entered into a partnership agreement with the National Academy of Sciences. Also, we have worked to foster partnerships with other "good government" organizations, such as the National Academy for Public Administration, the Private Sector Council, the Council for Excellence in Government, the Partnership for Public Service, and the Association of Government Accountants. These types of strategic working relationships allow us to extend our institutional knowledge and experience and, in turn, to improve our service to the Congress, the country, and the American people.

As previously mentioned, since 1970 GAO has been part of an international network, INTOSAI, which is composed of 184 accountability organizations. We have benefited from this network directly as an organization doing work in support of the Congress in that the relationships fostered by INTOSAI have facilitated our access to people, information, and knowledge sharing needed to maximize the value and ensure the expeditious completion of our international engagements. It is my opinion that our



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country has also benefited from our participation in this network because our efforts have served to promote democratic institutions and fight corruption through strengthening accountability organizations around the world. I serve on the Board of INTOSAI and head of the Accounting Standards Committee and the Board's Strategic Planning Task Force. In this regard, during fiscal 2002, GAO was asked to lead a 10-nation task force to develop a strategic planning framework for INTOSAI. INTOSAI's draft strategic planning framework, which was based on GAO's approach to strategic planning, was approved by INTOSAI's Board in October 2002. During fiscal 2003, the task force has been working to expand that framework into a comprehensive strategic plan. GAO also is an active member of the auditing standards, internal control standards, and public debt committees. I am a founder of the Global Working Group (GWG), in which the heads of GAO's counterparts from 17 countries and I meet annually to discuss mutual challenges and share best practices. These 18 members represent over 75 percent of global gross domestic product (GDP), and the efforts of this group have helped all member countries as well as INTOSAI as a whole.

Domestically, I chair the National Intergovernmental Audit Forum, and through 10 regional intergovernmental audit forums, GAO consults regularly with federal inspectors general as well as state and local auditors on issues of mutual interest and concern. In addition, through the Domestic Working Group (DWG), the Comptroller General and the heads of 18 federal, state, and local audit organizations exchange information and seek opportunities to collaborate in a manner similar to the GWG. As Comptroller General, I also serve as one of the four principals of the Joint Financial Management Improvement Program (JFMIP), who are actively fostering financial management reform. The JFMIP principals have met five times during the past 2 years with significant progress being made during this period of time.

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## GAO'S Transformation Efforts

In a testimony on executive reorganization authority that I delivered in April this year, I stated that creating high performing organizations requires a cultural transformation within agencies. Hierarchical management approaches will need to yield to participative approaches. Process-oriented ways of doing business will need to yield to results-oriented ones. Siloed organizations—burdened with overlapping functions, inefficiencies, and turf battles—will need to become more horizontal and integrated organizations if they expect to make the most of the knowledge, skills, and abilities of their people. Internally focused agencies will need to focus

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externally in order to meet the needs and expectations of their ultimate clients—the American people.

Consistent with our strategic plan's fourth goal, I believe that GAO should "lead by example" and be a model federal agency and world-class professional services organization. As the leading performance and accountability organization in the United States and possibly the world, GAO should be the federal government's model for best practices in every major operational area, from strategic planning and organizational alignment to performance and accountability reporting, client service, human capital practices, financial management, information technology, change management, and knowledge management. To achieve this, we have undertaken a comprehensive transformation effort over the past few years. Leading this transformation team is an Executive Committee that I established to provide strategic leadership. The members of the Committee include myself as Chief Executive Officer; Gene Dodaro, Chief Operating Officer; Sallyanne Harper, Chief Mission Support Officer and Chief Financial Officer; and Anthony Gamboa as our General Counsel. Together, we have focused GAO's transformation efforts on three primary areas: results, clients, and people.

Our efforts to transform GAO into a high performing organization have included a range of internal and external initiatives that has helped us become more strategic, results-oriented, partnerial, integrated, responsive, flexible, employee oriented, externally focused and constructive with those who we audit. Our strategic and annual planning processes, as discussed earlier, have helped us look forward and allowed us to proactively engage our clients in planning work that is focused on a more balanced time horizon and results orientation. Our organizational restructuring efforts have resulted in a significant streamlining and consolidation. We have expanded and revised our products to better meet client needs. In addition, we have redefined success in results-oriented terms and have linked our goals both to institutional and individual performance measures. We have strengthened our client relations and employed a constructive engagement approach to those we review. The impact of these and other efforts has been dramatic.

Over the past 4 years, we have worked on continuously improving GAO's performance measures, including most recently the development of a balanced scorecard that would allow us to better monitor, track, and report the achievement of results. Measuring the right things is vitally important because you manage what you measure and measurements ultimately drive

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basic organizational and individual behaviors. The performance measures that I found upon arriving at GAO were similar to other traditional performance measures in that, among other things, some of them focused on items that can be easily counted (e.g., numbers of reports); were numerous and of undifferentiated significance; and were process-oriented rather than results oriented. Our balanced scorecard is based on the three key areas that I mentioned earlier: results, clients, and people. For results, we measure such items as: financial benefits, other (nonfinancial) benefits, progress towards meeting the strategic plan's goals and objectives, number of recommendations made, the percentage of reports with recommendations; and the percentage of our recommendations adopted. For clients, we measure such items as: direct client feedback on individual products and testimonies, number of testimonies, and timeliness. For people, we measure: attracting and retaining quality talent; developing, supporting, and using staff; and leading, recognizing, and listening to staff.

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## Realigning the Organization

After our strategic plan was developed in 2000, we used it to restructure our organization in that same year to align with the goals and objectives of our strategic plan. Restructuring can be an important tool, but in order to be effective, it must be focused on clear goals and specific desired outcomes. GAO's restructuring resulted in the elimination of a layer of management and the consolidation of 35 issue areas into 13 teams. These teams perform the bulk of our research, analysis, and audit work for the Congress.

Of the agencies in the legislative branch, GAO is the only one with a field office presence that has allowed it to be Congress' "eyes and ears" beyond the nation's capital. However, with changes in air transportation, computer technology, demographics, and federal presence, our field office structure needed to be reexamined. After extensive study, we continued a process that began in 1986 and, as a result of the organizational realignment effort referenced above, further reduced our field offices from 16 to 11. Subsequently, we further restructured our field offices by eliminating the position of regional manager—a Senior Executive Service level position—in the individual field offices and consolidating the remaining field offices into three regions—the eastern region, the central region, and the western region, each headed by a single senior executive.

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## Achieving Results

GAO's contributions to the Congress and our country are significant and varied. While our contributions to financial benefits are quantifiable, what

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is more difficult to quantify and yet very valuable, are contributions to help inform the national debate on a broad spectrum of issues; providing the Congress with assistance such as reviews of agency budgets that help identify areas of potential savings; preventing major problems from occurring through constructive engagement efforts, when appropriate, with agencies to “help them help themselves” make progress in key areas; leading by example to demonstrate to agencies what can be done to advance management reform; and advancing the accountability community, both domestically and internationally, through the sharing of best practices and methodologies in areas where GAO is a recognized leader, such as performance auditing, financial auditing and reporting, standards setting, and governance.

To move towards a results orientation, we have reexamined our desired outcomes and are working to simplify and improve our performance measures to capture those contributions that are most significant. Beginning with the issuance of our strategic plan, we monitor our progress. Fortunately, by any reasonable benchmark, we are making excellent progress towards achieving most of our performance goals. We also modified our performance measures and eliminated specific goals, such as the number of products issued, which, while easy to count, was not results-oriented and did not have a strong enough correlation to positive results.

GAO delivers by any benchmark, an excellent return on investment to the Congress and the American people. I would like to briefly summarize some of our achievements over the past 5 years. Our financial and nonfinancial accomplishments have increased steadily over the past 5 years, and some have almost doubled. See table 1 for a summary of GAO’s financial and nonfinancial benefits.

**Table 1: Annual Measures and Targets**

Performance measure	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002		5-year Avg. Actual	2003 Target
					Target	Actual		
Financial benefits (billions)	\$19.7	\$20.1	\$23.2	\$26.4	\$30.0	\$37.7 <sup>a</sup>	\$25.4	\$32.5 <sup>b</sup>
Other benefits	537	607	788	799	770	906	727	800 <sup>b</sup>
Past recommendations implemented	69%	70%	78%	79%	75%	79%	N/A	77%
New recommendations made	987	940	1,224	1,563	1,200	1,950	1,333	1,250 <sup>b</sup>
New products with recommendations	33%	33%	39%	44%	45%	53%	40%	50%
Testimonies	256	229	263	151	200	216	223	180 <sup>b</sup>
Timeliness	93%	96%	96%	95%	98%	96%	95%	98%

Source: GAO.

<sup>a</sup>Changes GAO made to its methodology for tabulating financial benefits caused the fiscal 2002 results to increase about 11 percent.

<sup>b</sup>Four targets published in GAO's performance plan for fiscal 2003 were subsequently revised based on more current information. Two were raised; two were lowered. The original targets were financial benefits, \$35 billion; other benefits, 785; recommendations made, 1,200; and testimonies, 210.

As depicted in table 1, in fiscal year 1998, for every dollar invested in GAO, we helped the Congress and the agencies produce about \$58 in financial benefits or \$19.7 billion in total. In fiscal year 2002, for every dollar invested in GAO, we helped the Congress and the agencies produce about \$88 in financial benefits or \$37.7 billion in total. The 5-year average for financial benefits was \$25.4 billion for fiscal years 1998 through 2002. These financial benefits were achieved through actions taken by the Congress and federal departments and agencies that led to budget reductions, avoided costs, deferred appropriations, or resulting in additional revenue collections. Several recent examples of where our work resulted in significant financial benefits include our work in preventing inappropriate Medicare payments (financial benefits of \$8.1 billion) and our work on the Department of Defense's (DOD) consolidation initiatives at its computer centers (financial benefits of \$859 million). Based on our results to date, we fully expect our fiscal year 2003 financial benefits to significantly exceed the 5-year average.

GAO's work has helped inform congressional deliberations and debate on a broad spectrum of issues. During the 107<sup>th</sup> Congress, we made substantive contributions through our products, testimonies, briefings, and technical assistance in areas vital to helping legislators address challenges to our nation's national security, homeland security, economic security, as well as

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the financial security of Americans. For example, during the 107<sup>th</sup> Congress, GAO's work supported legislative deliberations and policy decisions involving the Homeland Security Act of 2002, Public Law 107-296; the Aviation Security and Transportation Act, Public Law 107-71; the Sarbanes-Oxley Act of 2002, Public Law 107-204; Help America Vote Act of 2002, Public Law 107-252; Best Pharmaceuticals for Children Act, Public Law 107-1092; Terrorism Insurance Act of 2002, Public Law 107-297; and the E-Government Act of 2002, Public Law 107-347. Our work has also helped facilitate the transformation of the federal government in general. More specifically, our efforts have helped identify the attributes of high performing organization, challenges in the human capital arena, competitive sourcing, and reforms needed for specific entities like the U. S. Postal Service and the Pension Benefit Guaranty Corporation.

In addition to financial benefits, GAO's work has led to improvements in a wide range of government operations and activities. GAO's work was instrumental in bringing 906 needed improvements in the effectiveness and efficiency of government operations and services in fiscal year 2002. Since most of the results of our work take the form of action initiated in response to our recommendations, we use the number of recommendations made during the year as a performance measure. In fiscal year 2002, we made 1,950 recommendations for improvements in the economy, efficiency, and effectiveness of federal operations. An example of recommendations that led to such improvements is our work on improper payments, where we made recommendations on actions agencies should take to reduce improper payments. These recommendations not only led to the enactment of the Improper Payments Information Act of 2002, Public Law 107-300, but also resulted in action by the Office of Management and Budget (OMB) through the President's Management Agenda which required selected agencies to report improper payment rates and the causes of those payments. Because our recommendations take time to implement, we track recommendations made in past years. Specifically, in fiscal year 2002, we noted that 79 percent of the recommendations we had made in fiscal 1998 had been implemented, a significant percentage when the work we have done for the Congress becomes a catalyst for creating tangible benefits for the American people.

GAO continued its long-standing tradition of providing the Congress a framework for oversight through the issuance of our *Performance and Accountability Series and High-Risk Update*. Our 2001 *Update* identified close to 100 major management challenges and program risks at 21 federal agencies and highlighted actions to address these serious problems. In

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preparing the 2001 update, we established a new framework with respect to the *High Risk list* that provided greater consistency in determining which areas should be designated high risk and which areas would be eligible for getting off the high risk list. Our 2003 *Update* added the new high risk issues Implementing and Transforming the New Department of Homeland Security, Modernizing Federal Disability Programs, Federal Real Property, and the Medicaid Program; subsequently, we added the Pension Benefit Guaranty Corporation's Single-Employer Insurer Program. We are currently examining ways of improving on our *Performance and Accountability Series and High-Risk Update* with an eye towards making it even more strategic and foresight oriented.

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## Serving the Client

From the beginning of my tenure, I have sought to strengthen relations and improve communications with our congressional clients. Addressing client needs is critical to any organization's success, and while GAO is unique in that it must provide the Congress its best professional opinion in a political, and sometimes contentious, environment, it must be perceived by its client as meeting its needs. Both prior to and subsequent to my appointment as Comptroller General, I consulted broadly with key Members and staff in both houses and on both sides of the aisle as well as with a variety of other parties. Based on this outreach, some believed or perceived that GAO may have strayed from important values related to its mission, may have become closer to one political party, and, may not have effectively managed its staff details to certain congressional committees. Another concern that I heard was that GAO's basis for decision making on requests was not very transparent, well known, or understood.

To address these issues, upon becoming the Comptroller General, I immediately worked with GAO's top management to establish and communicate to all GAO staff our mission and core values, to guide what we do and how we do our work. Our mission statement states: "GAO exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people." After a lot of discussion and debate, we agreed on an express set of core values to guide our work. GAO's core values are accountability, integrity, and reliability. The values are further defined as follows:

- **Accountability:** We help the Congress oversee federal programs and operations to ensure accountability to the American people. GAO's analysts, lawyers, auditors, economists, information technology

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specialists, investigators, and other multidisciplinary professionals seek to enhance the economy, efficiency, effectiveness, and credibility of the federal government both in fact and in the eyes of the American people.

- Integrity: We set high standards for ourselves in the conduct of GAO's work. Our agency takes a professional, objective, fact-based nonpartisan, nonideological, fair and balanced approach to all activities. Integrity is the foundation of reputation and the GAO approach to work ensures both.
- Reliability: We at GAO want our work to be viewed by the Congress and the American public as reliable. We produce high-quality reports, testimony, briefings, legal opinions, and other products and services that are timely, accurate, useful, clear and candid.

These are values that represent our institutional beliefs and boundaries. I use them every day in my internal and external decision making. Both our mission and core values are communicated externally and internally through many venues.

In addition, we also developed and implemented a set of Congressional Protocols—policies and procedures—to guide our interactions with and ensure our accountability to the Congress. These protocols, which underwent a 9-month pilot test, set out clear, transparent, consistently applied policies and practices for GAO's relations with the Congress. They are designed to help reduce miscommunications and ensure that our congressional requesters are treated both consistently and equitably. The final protocols were issued in November 2000 and have been well received. We are in the process of updating our Congressional Protocols now and will be vetting them with your Committee and others before finalizing the revisions.

To respond more effectively to the Congress, we changed our process for accepting congressional requests (if accepted, these requests are termed engagements) and our approach to identifying related risk. We have become increasingly sophisticated in meeting our clients' needs within available resources. We believe that our engagement acceptance process has provided more structure; a broader institutional perspective; greater internal collaboration; and additional awareness of the external environment, including potential partnerships in connection with GAO engagements. Annually, in addition to mandates established in law, we receive over a thousand requests from the Congress, with most coming



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from congressional committees and lesser numbers from individual members of Congress and the senior leaders. To address these requests in a timely basis and allow for prompt communication back to the requesters, the requests are reviewed and discussed in a weekly meeting chaired by Gene Dodaro, our Chief Operating Officer. During that meeting, members of the Executive Committee and GAO's managing directors discuss congressional requests received during the previous week. As part of that discussion, we determine whether to accept the request based on consideration of factors such as our ability to carry out the work in terms of both authority and resources available, work that may already be ongoing, and the priority assigned to the requester based on those set forth in our Congressional Protocols. Also, during that meeting, a risk factor is assigned to the engagement that will, among other things, determine the level of product review required before issuance. To facilitate the timeliness of our response to our clients, I have delegated to our team managing directors the authority to sign off on products with lower risk designations.

In the interest of leading by example and promoting transparency and accountability in government, we provide annual Performance and Accountability reports to the Congress and the public. We have also improved congressional access to GAO information on our active assignments and our products. GAO's first Accountability Report to the Congress, which discusses our performance and accountability in serving the Congress and the American people, was issued for fiscal year 1999. For fiscal year 2001, we issued a performance plan that contained the performance measures and annual performance targets we planned to use to gauge progress towards accomplishing our strategic goals and objectives. For 2002, we combined an assessment of our accomplishments in fiscal year 2001 with our plans for continued progress through fiscal year 2003 into one performance and accountability report and issued a new and condensed "highlights report." George Mason University's Mercatus Center evaluated our fiscal year 2002 Performance and Accountability report at our request and ranked GAO's report number one in the federal government. The report earned a Certificate of Excellence in Accountability Reporting from the Association of Government Accountants (AGA). It also earned honors for graphics design in the annual American Graphics Design Award competition of 2003. The annual competition attracts about 10,000 entries from advertising agencies, graphic design firms, corporate creative departments, and publishers in a wide range of categories, and fewer than 10 percent were selected for awards.

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In the past, GAO has made several attempts to devise systems for measuring how well it was meeting the needs of our congressional clients, yet none of these attempts proved to be particularly successful. We now seek direct client feedback through our continuous congressional outreach effort and a Web-based client feedback survey on certain individual products and testimonies. These initiatives are set forth as follows.

- Continuous congressional outreach. Since the mid-1990s, we have conducted a structured outreach to our key congressional clients—the Senate and House senior leaders and the congressional committees—in order to obtain feedback on our performance, discuss the legislative agenda for the coming year and how GAO can best support the Congress, and obtain information needed to update our strategic plan.
- Feedback on individual products. In fiscal year 2001, we developed a Web-based process to more effectively collect feedback from congressional clients on our reports and products. This new system, which we piloted for 7 months with our oversight committees and implemented in fiscal year 2002, used E-mail and a Web site to obtain client feedback on (1) product timeliness and (2) communications and professional conduct during the engagement for a sample of recently issued products. For example, of those who responded, we received a 91 percent favorable response rate for our testimonies and a 93 percent favorable response rate for our written products for the period covering March through November 2002. Indications are that the favorable response rate for our products and testimonies is holding for this fiscal year as well.
- Congressional testimonies. Since the early 1980s, GAO's testimonies at congressional hearings have increased. At one time, only the Comptroller General and a few others could testify. My predecessor, Mr. Bowsher, expanded the pool of potential GAO witnesses to our senior executive corps. During fiscal 2002, members of our senior executive service or I testified 216 times in fiscal year 2002 across a broad spectrum of congressional committees, sometimes on as little as 24 hours notice.
- Timeliness. Given the time sensitive nature of the legislative process and the fact that information delivered after decisions have been made is not useful, we have worked hard to make sure that information is provided in a timely manner. In fiscal year 2002, our on-time delivery

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rate was 96 percent. Of our seven agencywide annual performance targets, timeliness was the only measure that we did not fully meet.

Recognizing that members and key staff are inundated with information and pressed for time, we sought better ways of communicating information to them. We initiated efforts in fiscal year 2001 to revamp our communications strategy. We piloted and have now implemented for most of our products and testimonies a new reporting product line entitled Highlights—a one-page summary that provides the key findings and recommendations from a GAO engagement. This summary has been extremely well-received by our congressional audience as well as the press and the general public. In addition, we continue seeking better ways to communicate, including presenting information in a visual manner to quickly convey the message.

We have applied technology and used our Website to issue and publicize our products not only to the Congress, but also to the general public. Our external website now logs about 130,000 hits each day and more than 1 million GAO products are downloaded every month by our congressional clients, the public, and the press. Further, to better inform the client about the work we have in progress, we have implemented a Web-accessible active assignment list for congressional clients and to facilitate key contacts, enhanced the search capability for GAO products on our external Web site.

In yet another example of serving the Congress, GAO opened our doors to Members of the House of Representatives and their staffs on October 23, 2001, in response to the anthrax incident on Capitol Hill. As an outgrowth of that experience, the House of Representatives has designated GAO one of its contingency sites in the event of an emergency in order to maintain legislative continuity of operations.

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## Fostering Constructive Agency Relations

To better maximize our value to the Congress and work smarter, we have increased our constructive engagement efforts with other agencies. Rather than deal with problems after the fact, piecemeal, or when they've reached crisis proportions, we are working to prevent problems by pointing out what is right, recognizing the progress made, and guiding agencies to positive results by publishing self-assessment guides that provide tools with which agencies can help themselves. One area in particular where this has made a big difference is information technology. As we have reported repeatedly, the federal government does not have the systems in

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place that can provide accurate and real-time information for legislators and policymakers to evaluate program effectiveness and efficiency. However, our benchmarking and best practices studies are recognized industrywide for their excellence. Other examples of our assisting agencies include GAO's work in strategic planning, human capital, and financial management.

To this end, we have worked hard to cultivate good working relations with the Office of Management and Budget (OMB) and Cabinet-level officials. These relations have proven mutually beneficial. Because Congress' need for information is time sensitive, having good working relations with the executive branch agencies has helped us overcome bureaucratic inertia or resistance in their providing information in a timely manner. As part of our constructive engagement efforts, we have assisted in the congressional and presidential transitions and provided new legislators and officials with information about the challenges facing them. These and other constructive engagement efforts are helping focus increased attention on major management challenges and high-risk issues, thus contributing to good government. Our *Performance and Accountability Series and High Risk Update* has proven useful in carrying out our responsibility under the Presidential Transition Act in that it helped serve as a key source of information for the incoming administration and Members of the 107<sup>th</sup> Congress. In addition, the President's Management Agenda (PMA) for reforming the federal government mirrors many of the management challenges and program risks that GAO reported on in its 2001 *Performance and Accountability Series and High-Risk Update*, including a governmentwide initiative to focus on strategic management of human capital.

To minimize misunderstanding and miscommunication between us and the agencies relating to how we do our work and report the results, we piloted a first-ever set of agency protocols for a 6-month period from December 2002 through June 2003, to guide our interactions with federal agencies and provide clearly defined, consistently applied, well-documented, and transparent policies for conducting our work with these federal agencies. In developing the protocols, we sought comments from 28 federal departments, agencies, and entities and are in the process of considering their comments. After analyzing the comments from the pilot, we plan to implement the agency protocols in fiscal year 2004.

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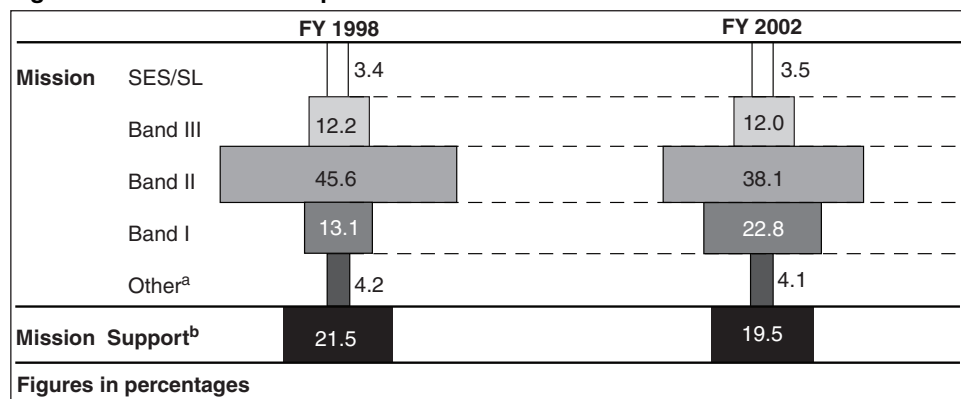
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## Investing in People: Human Capital Initiatives

Given GAO's role as a key provider of information and analyses to the Congress, maintaining the right mix of technical knowledge and expertise as well as general analytical skills is vital to achieving our mission. We spend about 80 percent of our resources on our people. I think it is fair to say that while our people account for 80 percent of our costs, they constitute 100 percent of our real assets. Without excellent human capital management, we could still run the risk of being unable to deliver what the Congress and the nation expects of us. For this and other reasons, we seek the additional human capital flexibilities contained in S. 1522.

At the beginning of my term in fiscal year 1999, we completed a self-assessment that profiled our human capital workforce and identified a number of serious challenges facing our workforce, including significant issues involving succession planning and imbalances in the structure, shape, and skills of our workforce. As presented below, through a number of strategically planned human capital initiatives over the past few years, we have made significant progress in addressing these issues. The flexibilities provided GAO in the GAO Personnel Flexibilities Act of 2001, Public Law 106-303, enacted on October 26, 2000, was a contributing factor in helping us reshape the organization. In fiscal years 2002 and 2003, because of the authority granted us under the law, we granted voluntary early retirement to 52 employees in fiscal year 2002 and 37 employees in fiscal year 2003. As a result of our various human capital initiatives, as illustrated in figure 1, by the end of fiscal year 2002, we had almost a 60 percent increase in the percentage of staff at the entry-level (Band I) as compared with fiscal year 1998. Also, the proportion of our workforce at the mid-level (Band II) decreased by 8 percent.

**Figure 1: GAO's Human Capital Profile**



Source: GAO.

<sup>a</sup>Attorneys and criminal investigators.

<sup>b</sup>Mission support includes both mission and mission support offices.

One of my top priorities when I became Comptroller General was to enhance internal communications as a means of empowering staff and facilitating our agency transformation and our change management efforts. This has been accomplished through various means. For example, any GAO staff member can e-mail me with comments and concerns, and believe me, I do respond. Since becoming Comptroller General, I have provided employees throughout GAO the opportunity to provide me their views through a periodic, now annual, confidential employee survey. An independent contractor collects the survey results and aggregates them. They then are provided to GAO's managing directors and me. Employees are also given the opportunity to provide written narrative comments that I, and I alone, receive for review. I recently received the results of the 3<sup>rd</sup> employee survey in which 89 percent of GAO's workforce responded and 2,101 provided me with written narrative comments, which I personally read. Highlights of this most recent employee survey are as follows.

- The results of the 2003 Employee Survey were by and large very positive. Of those questions with a basis for year-to-year comparisons, employee satisfaction (as measured by the number of strongly agree/agree responses) was up in 72 of the 83 areas, with one area remaining unchanged.
- Critical "People Measures Scores," which are used in our balanced scorecard and reported externally, went up in all four areas (i.e.,

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organizational climate, staff utilization, leadership, and staff development) in 2003 versus 2002. The increases in people measures were attributable to both new and experienced staff responses to the 2002 survey.

- In comparing our results to OPM's 2002 survey of executive branch agencies for 11 benchmark questions, our 2003 survey results were higher than the governmentwide benchmark numbers for 9 of 11 comparable questions. GAO's overall average positive score for these 11 benchmark questions was about 10 percent higher than the OPM benchmark questions' average. Similarly, for the four benchmark questions also applicable to the private sector, GAO's scores were higher than both the private sector and government averages in all four areas, significantly so in three of the four questions.
- Some areas, such as encouraging innovation and creativity and soliciting and considering employee views, went up dramatically, which are big steps in the right direction with respect to our overall transformation effort.
- There was only one area where the positives went down and the negatives went up, and that was in the area of requiring our employees to prepare Individual Development Plans (IDP). As a result, we are reassessing and reconsidering our approach to IDPs.

I have also used periodic CG "Chats," which are closed-circuit telecasts to all agency staff. Through the years, I have used these telecasts on numerous occasions to discuss critically important issues, such as GAO's strategic plan and congressional protocols, client service, employee survey results, work processes, organizational alignment, information technology- including our most recent human capital initiative, which your committee is considering today. In addition, we established an employee suggestion program in October 1999 as a means of tapping the ideas and ingenuity of GAO staff members to improve the agency's processes, products, and services. Since the start of the program, 2,348 suggestions have been submitted, of which 345 have been accepted, with most of the remaining either rejected or closed because they didn't meet the program's criteria or had duplicated earlier suggestions.

One of the areas of which I am most proud is the establishment of our now fully democratically elected Employee Advisory Council (EAC). This 23-member Council represents virtually every group of GAO employees. The

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members of the Executive Committee and I use this Council to discuss current and emerging issues of mutual interest and concern and to continuously improve GAO. While the EAC opted not to testify today, I understand that they have submitted a statement for the record on GAO's human capital proposal.

Other major human capital initiatives include the following:

- Recruiting talented staff. Because of the budget reductions of the mid-1990s, GAO froze hiring, which created an over 5-year gap in its workforce pipeline. In fiscal year 1998, we resumed hiring, and in fiscal year 2002, we hired nearly 430 permanent staff and 140 interns. We also developed and implemented a strategy to place more emphasis on diversity in campus recruiting. A recent article in the *Washington Post* lauded GAO's recruitment innovations and efforts as an example of a federal agency that is approaching recruiting right.
- Identifying and assessing skills. A modern professional services organization needs to know what skills its workforce possesses and be able to readily assess those skills in support of its clients. GAO has conducted an agencywide assessment and inventory of our workforce's knowledge and skills that is updated periodically.
- Retaining staff with critical skills. A challenge facing the federal government is the retention of critical skills, particularly in the technical areas. Using the authority granted us by Public Law 106-303, we established a corps of senior level executives who have the pay and benefits of the Senior Executive Service but need not be generalist managers. To retain staff with critical skills and staff with less than 3 years of GAO experience, we implemented legislation authorizing federal agencies to offer student loan repayments in exchange for certain federal service commitments. GAO ranks as one of the top agencies in providing student loan repayments. GAO also periodically administers an employee preference survey that is being used along with the results of the knowledge and skills inventory to meet our institutional work needs while accommodating staff preferences for types of work to the extent possible. In addition, we have recently instituted a new knowledge transfer and succession planning program that would allow select retirees to become reemployed annuitants for up to 2 years following retirement in order to facilitate the transfer of knowledge in critical areas and allow for a smooth transfer of responsibilities.



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- Modernizing the performance assessment system. In fiscal year 2002, GAO completed an overhaul of its performance assessment system and implemented a new, modern, effective, and credible performance appraisal system for analysts and specialists; adapted the system for attorneys; and began modifying the system for administrative professional and support staff. Our performance standards were revised to incorporate our core values and strategic goals. We also updated descriptions of performance to better reflect the current nature of our work and implemented other key concepts, such as leadership-by-example, client service, measurable results, matrix management, open and constructive communications, and balancing people and product considerations.
  - Investing in training. One of the down sides of the budget reductions of the mid-1990s was that GAO reduced its training investment in employees. World-class professional service organizations with staffs similar to GAO's multidisciplinary workforce invest nearly 6 percent of their budgets in training staff. GAO's investment in training its staff in fiscal year 1998 was less than that. We have resumed our training investment, but with an eye towards maximizing the efficiency and effectiveness of our investment. To this end, we have hired a Chief Learning Officer and established a new Learning Board to guide our Center for Performance and Learning in formulating its training priorities. We have also begun developing a new core training curriculum for managers and staff to provide additional training on the key competencies required to perform GAO's work.
  - Creating incentives and improving recognition. One of the areas that I have championed since coming into office has been establishing the allocation of pay on a more performance-oriented basis. We have been fortunate to be the beneficiaries of excellent recruits, due in part to the economic downturn, a renewed interest in public service following the events of September 11, 2001, and our innovative human capital strategies. Retaining these recruits, however, will require a range of efforts including providing a continuous learning environment, adequate technological support, and reasonably competitive compensation. Also, for those who have made GAO their careers, there should be rewards for outstanding performance. For example, during fiscal year 2003, we began providing performance bonuses to top performers who are "pay capped"—those who, because they have reached the pay ceiling, are ineligible for any permanent pay increases.

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S. 1522 would help us continue to invest in our people and attract, recruit, and retain staff with the critical skills we need.

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## Building an Integrated and Reliable Information Technology Infrastructure

Information technology is critical to our productivity, success, and viability. As such, we have been working on a number of initiatives to enhance and protect our investments in information technology. Specifically, we have

- completed a comprehensive review of our information technology;
- rechartered and reestablished our Information Technology Investment Committee to provide high-level vision, review, and approval of program initiatives to transition from the current technological environment to the target one.
- developed, as required by the Clinger-Cohen Act, an enterprise architecture program—a blueprint for operational and technological change;
- expanded information systems security efforts and disaster recovery systems that allow for continuity of operations;
- made progress to implement a risk-based, agencywide security program, provide security training and awareness, and develop and implement an enterprise disaster recovery solution; and
- begun implementing an information security program consistent with the requirements in the Government Information Security Reform provisions (commonly referred to as “GISRA”) enacted in the Floyd D. Spence National Defense Authority Act for fiscal year 2001.

During 2002 and 2003, we acquired new hardware and software and developed user-friendly systems that enhanced our productivity and responsiveness to the Congress. Specifically, we replaced aging desktop workstations with notebook computers that provided greater computing power, speed, and mobility; developed new, integrated, user-friendly Web-based systems that eliminate duplicate data entry while ensuring the reusability of existing data; expanded the availability of cellular phones and personal digital assistants to GAO’s senior management; and added video broadcast capability to the desktop. In addition, we upgraded remote access capability, improving the speed and reliability of dial-up connections to GAO’s information technology facilities; completed communications

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upgrades to the field to provide high-speed, reliable connectivity to the GAO network; replaced aging videoconferencing equipment with current technology; and began planning communications upgrades to support evolving video technologies.

Recently, the CIO Magazine's August 15, 2003, issue named GAO as a "CIO 100" organization, thereby recognizing GAO's excellence in managing information technology resources. Of the over 400 applicants from both the public and private sectors, GAO was one of just three federal agencies named a "CIO 100". Specifically, GAO was recognized for asset management (i.e., getting the most out of its existing systems), staffing and sourcing (i.e., flexible and creative approaches to meeting personnel needs), and partnerships (i.e., building internal and external relationships to deliver new products and services). In addition, GAO was specifically cited for a best practice—staffing new projects through internal "help wanted" ads.

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## Reengineering Business Processes

As part of the organizational realignment implemented in calendar year 2000, we established an internal group whose mandate was to focus on business process reengineering as a tool for increased productivity and knowledge management. One of the accomplishments of this group was the launching of the Electronic Assistance Guide for Leading Engagements—the EAGLE, which is the prototype of a comprehensive Web-based guide to conducting GAO engagements. Recently, we have established a Continuous Improvement Board to guide the activities of the group that has been integrated into our Quality and Continuous Improvement office.

Along with our realignment, we also implemented two new management strategies: risk management and matrix management. GAO's risk management approach allows management to identify key stakeholders throughout an engagement, to transcend traditional organizational boundaries, to maximize value, and manage risks in connection with GAO's engagements and other activities. GAO's matrix management approach maximizes our value to the Congress by leveraging the knowledge, skills, and experience of all employees to ensure the highest quality products and services and to help the Congress address the challenging, complex, rapidly changing, and multidimensional problems facing the nation.

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## Being Good Stewards of Our Financial Resources

As the leading performance and accountability organization in the public sector, it is vital that GAO set the example in the area of financial management as well. GAO's financial statements for fiscal years 2002, like those for fiscal years past, received an unqualified opinion from an independent auditor. No material weaknesses in internal control were identified, and the auditor reported substantial compliance with the requirements in the Federal Financial Management Improvement Act of 1996 (the Improvement Act) for financial systems. In addition, the auditor did not find any instances of noncompliance with the laws or regulations for which they tested.

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## Challenges

As with any organization, we face a range of internal and external challenges that could affect our ability to effectively support the Congress in the future. Some of these challenges are those that require ongoing management vigilance and attention (e.g., assuring product quality and adherence to core values, human capital, physical security, and information security) while others are special challenges that warrant monitoring and/or congressional attention.

While we have put in place a good risk management system for our engagements, whereby all the engagements are reviewed weekly and categorized by a variety of factors including risk, we nevertheless must always be vigilant that GAO does not stray from its values and therefore, lose its reputation for being an "honest broker" on important government operations and policy issues. Given that about 25 percent of our staff have been with GAO for 3 years or less, it is vitally important that we inculcate these values in our staff and train them in the proper conduct of our work. Also, we need to make sure the staff who have been here for more than 3 years remain true to our values and our quality assurance standards and practices. To ensure that we have an independent quality check in place, GAO has had, beginning with its financial audits issued in 1995 and continuing for every 3 years thereafter, an external group—an independent CPA firm—performs a peer review of our work. We are currently in the process of extending this practice to our non-financial work and expect our products issued in 2004 to be peer reviewed by a team headed by the Auditor General's office of Canada who will conduct their work between 2004 and 2005. To prepare for this, we have invested much effort in revamping our quality assurance framework.

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We named in our fiscal year 2002 Performance and Accountability report three risk areas—human capital, physical security, and information security—as areas that could affect our ability to perform work for the Congress. We have made progress in addressing each of these challenges, but still have work to do.

In the human capital area, we are faced with a challenge because a significant percentage of our workforce is nearing retirement age, while marketplace, demographic, economic, and technological changes indicate that competition for skilled workers will be greater in the future. We are recruiting diverse, high-caliber staff with the skills and abilities we need to achieve our strategic goals and objectives. Whether we will be able to retain them when the economy improves remains to be seen, but I can assure you that we are doing our best to do so. Given GAO's role as a key provider of information and analyses to the Congress, maintaining the right mix of technical knowledge and expertise as well as general analytical skills is vital to achieving our mission. Over the next several years, we need to continue to address skill gaps, maximize staff productivity and effectiveness, and reengineer our human capital policies, programs, and processes to make them more user-friendly. We plan to address skill gaps by further refining our recruitment and hiring strategies to target gaps identified through our workforce planning efforts, while taking into account the significant percentage of our workforce eligible for retirement.

In the aftermath of the September 11 terrorist attacks and subsequent anthrax incidents, the ability to provide a safe and secure workplace emerged as a challenge for our agency. Protecting our people and our assets is critical to our ability to carry out our mission to serve the Congress and the American people. Also in light of these incidents, we need to ensure information systems security and disaster recovery systems that allow for the continuity of operations. We have made progress through our efforts to, among other things, implement a risk-based, agencywide security program; provide security training and awareness; and develop and implement an enterprise disaster recovery solution.

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## Special Challenges

The following are some special challenges that we are carefully monitoring and may need to work with the Congress on to address:

- Unfunded mandates. Since becoming the Comptroller General, I have not asked for any increase in our staffing levels and have requested

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targeted investments in human capital, information technology and security, and physical security initiatives based on specific business cases. Last year, the Congress passed a 4.1 pay increase but did not provide funding for all of the increase. While we were able to reallocate our budget to cover these increases, we are concerned that if this becomes a regular practice, we will be unable to effectively discharge our responsibilities in view of the fact that our employees' salaries and related benefits comprise 80 percent of our budget. We have worked hard with available resources to cover mandatory expenses, including inflation and compensation costs. In addition, there has been recent interest in having GAO expand the scope of its activities in such areas as evaluating regulatory costs and benefits as well as conducting technology assessments. While I obviously want to be sure that we meet the changing needs of the Congress, I believe strongly that any significant expansion of the scope of our work should be coupled with appropriate funding. Doing otherwise would ultimately undermine our ability to carry out our core activities. Looking longer-term, we are concerned about the future fiscal outlook and its potential impact on our organization. We hope that the Congress will resist the tendency, in responding to budgetary constraints, to institute across the board budget reductions or reward the "basket cases" with additional flexibilities and appropriations, instead of rewarding organizations such as ours that generate positive results, do many things right, and are trying to do the right things.

- Supply and demand imbalances. While the overall number of congressional requests has decreased, the quality of these requests has improved which is reflected in the results we are achieving. Also, more requests are of a bipartisan nature. However, we are monitoring closely the number of engagements that we have accepted but not yet staffed, which has increased during the past 4 years. These engagements, totaling over a hundred, are spread among our 13 teams. The backlog is particularly acute in certain teams and areas (e.g., health care) because of increasing congressional demands. While we are working to achieve more flexibility in the way we staff and are reexamining our inventory, there is a limit to our ability to address these challenges by shifting resources from one area to another because of the specialized skills and knowledge required. We are concerned that we may not be able to respond to engagements we accept in a timely manner if the backlog builds. Also, if this supply and demand imbalance continues to grow, we will need to work with this Committee, the House Government Reform Committee, our appropriations committees, and senior leaders in

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making some tough choices, such as possibly reconsidering and reprioritizing any pending requests and not being able to accept requests from individual Members. Further, we may have to limit the small percentage of resources dedicated to research and development work (work that by law the Comptroller General is able to initiate on his own authority), which would hamper our ability to respond to urgent issues as we were able to do in the areas like national preparedness, homeland security, human capital, and Postal Service reform. I believe that it is important for GAO to be able to dedicate roughly 10 - 15 percent of its total resources to research and development work, which ultimately improves our ability to respond to longer-range issues. In this regard, the percentage of resources devoted to research and development work was 13 percent in FY 01, 11 percent in FY 02, and 9 percent year to date in FY 03.

- Access to records. Not surprisingly, GAO has faced access to record problems periodically in its history. Most of the time, we have been able to work with the executive branch. In my opinion, it was very unfortunate that we could not work out our information request relating to the National Energy Policy Development Group with the Vice President, who chaired the Group. We felt that we had no choice but to seek redress through the courts because the request was backed by four Senate committee or subcommittee chairmen, and as you know, we are required by law to perform work for committees. In addition, the administration did not exercise its option to withhold the information based on executive privilege or under the certification provision in GAO's statute. The federal district court ruled in its decision that GAO did not have the standing to sue, but did not render an opinion on the merits of the case. We decided not to proceed with an appeal for a variety of reasons. Since then, we have monitored our access-to-record issues closely and have not experienced thus far a proliferation of access to records problems. In light of certain records access challenges during the past few years, and with concerns about national and homeland security unusually high at home and abroad, it may become more difficult for us to obtain information from the executive branch and report on certain issues. If this were to occur, it would hamper our ability to complete congressional requests in a timely manner. We are updating GAO's engagement acceptance and review policies and practices to address this issue. However, we do not require legislative changes in this area at the present time.

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- Selection process for the Deputy Comptroller General. GAO has only two political appointee positions—the Comptroller General and the Deputy Comptroller General. GAO has not had an official Deputy Comptroller General since the appointment process was changed by law in 1980. Under the law, the Deputy Comptroller General is nominated by the same 10 member board that nominates the Comptroller General (i.e., Senate and House leaders and the Chairmen and Ranking Minority Members of the Senate Committee on Governmental Affairs and the House Committee on Government Reform) working with the Comptroller General. Under the current scheme, the Deputy Comptroller General is supposed to serve in the Comptroller General’s absence or after his 15-year term is completed. I believe the time has come to consider having the Comptroller General, in consultation with the aforementioned board, be able to pick the Deputy, which is how it works in most of our international counterpart organizations.
  - Performance and accountability community coordination. Related to trying to do more with the resources we have in the performance and accountability area is determining how GAO and the Inspectors General should best complement each other and coordinate. The Inspectors General Act of 1978 as amended, Public Law 95-452, which established the Inspectors General, has been in existence for almost 25 years and merits a review. Given the challenges facing the federal government, I believe that the past should not be prologue in this arena. The law currently requires that the Inspectors General coordinate with GAO to ensure that they are not duplicating efforts. The traditional division of responsibilities has been that GAO looks horizontally at programs and functions across government, while the Inspectors General have been the “local cop” on the beat focusing on combating fraud, waste, abuse and mismanagement within their respective agencies. With OMB’s efforts to make performance and financial reports more relevant to management decision-making, our collaborative efforts in improving governmentwide financial management will merit review. Over the next few years, GAO will need to invest more resources, (through use of GAO’s own staff and/or through contractors) in assuring the work of the Inspectors General and external auditors in the financial statements area. This resource investment is necessary if we are to be able to render an opinion on the consolidated financial statements of the U.S. government.
  - Additional bid protest volume. Over the past year, GAO has seen the number of bid protests filed increase by close to ten percent, and that



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upward trend is continuing. In addition to its other roles, GAO also serves as a quasi-judicial forum, hearing bid protests from disappointed bidders seeking to obtain federal contracts. GAO provides an objective, independent, and impartial forum for resolving protests, and GAO's decisions, which are published on our website, are relied on by the courts, the contracting agencies, and the public. This means of resolving disputes saves both time and money in that the parties need not go through the federal court system. Two particularly significant areas in which GAO has issued, and expects to continue issuing, decision on bid protests are public/private competitions under OMB Circular A-76 and procurements involving purchases under GSA's Federal Supply Schedules.

- Work involving other legislative branch entities. GAO is increasingly being requested to provide assistance on work involving other legislative branch entities such as the Architect of the Capitol, including its Capitol Visitors Center project, the Capitol Police, the Government Printing Office, and the Library of Congress. This assistance can take different forms (e.g., direct assistance, contract procurement and monitoring, or management and technical assistance) and can be of a sensitive and high risk nature.

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## Need for S. 1522

I believe that it is vitally important to GAO's future to continue modernizing and updating its human capital policies and practices in light of the changing environment and anticipated challenges ahead. GAO's proposal represents a logical incremental advancement in modernizing our human capital policies. Given GAO's human capital infrastructure and unique role in leading by example in major management areas, the rest of the federal government can also benefit from GAO's pay system experience. We respectfully request the Committee's support of our request. We also respectfully request prompt passage of S. 1522 by the Congress, since some of our existing authorities are set to expire at the end of this calendar year.

GAO has used the narrowly tailored flexibilities granted by the Congress previously in Public Law 106-303, the GAO Personnel Flexibilities Act, responsibly, prudently, and strategically. GAO's latest proposal combines diverse initiatives that, collectively, should further GAO's ability to enhance its performance; assure its accountability; and help ensure that we can attract, retain, motivate, and reward a top-quality and high-performing workforce both now and in future years. Specifically, GAO is requesting that the Congress (1) make permanent GAO's 3-year authority to offer early

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outs and buyouts, (2) allow GAO to set its own annual pay adjustment system separate from the executive branch, (3) permit GAO to set the pay of an employee demoted as a result of workforce restructuring or reclassification to keep his/her basic pay but to set future increases consistent with the new position's pay parameters, (4) provide authority to reimburse employees for some relocation expenses when that transfer has some benefit to GAO but does not meet the legal requirements for reimbursement, (5) provide authority to place upper-level hires with fewer than 3 years of federal experience in the 6-hour leave category, (6) authorize an executive exchange program with the private sector, and (7) change GAO's legal name from the "General Accounting Office" to the "Government Accountability Office."

We believe that our proposal is both well reasoned and reasonable. Although GAO's request for authority to adjust its annual pay system separate from the executive branch may appear to be dramatic to some, there are compelling reasons why GAO ought to be given this authority. These include the fact that GAO already has a hybrid pay system established by the authority the Congress granted it over two decades ago. In addition, the proposal is modest if viewed in the light of authorities already granted and requested by other agencies (e.g., DHS, DOD). Further, GAO already has a number of key systems and safeguards in place (e.g., a validated performance measurement system for its analysts and attorneys; a grievance process which allows employees to appeal to an independent Personnel Appeals Board; and opportunity periods for employee improvement) and has plans to build in additional safeguards if the additional authorities that we are seeking are granted.

Since submitting the proposal, I testified on July 16, 2003, before the House Government Reform Subcommittee on Civil Service and Agency Organization, along with Chris Keisling, the Employee Advisory Council's representative, Paul Light of Brookings Institution, and Pete Smith of the Private Sector Council. See Appendix II for a copy of the statement that I presented before the House. GAO's proposal was introduced that same day as H. 2751, the GAO Human Capital Reform Act of 2003, and was subsequently marked up and reported out of the Subcommittee on July 23, 2003, with an amendment that added a requirement that we periodically report on the status of certain provisions; modified the target group for the increased annual leave benefit from upper-level hires to key officers and employees; and limited our exchange program to no more than 30 people coming to GAO from the private sector and no more than 30 people leaving GAO for a detail to the private sector. We concurred with these

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amendments. The bill that Senator Voinovich introduced on July 31, 2003, S. 1522, which you co sponsored, Madam Chair, mirrors the bill that was marked up in the House.

Based on employee feedback, there is little concern relating to most of our legislative proposal. Although some elements of GAO's initial straw proposal were very controversial (e.g., GAO's pay adjustment provision), I have made a number of changes, clarifications, and commitments to address employee concerns. While I believe that some employees remain concerned about the pay adjustment provision, I also believe that employee concerns have been reduced considerably due to the clarifications, changes, and commitments I have made. This view has been underscored by the results of the recent employee staff survey. Of the 2,101 GAO employees who provided narrative comments, only a small percentage commented on our legislative proposal.

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## Opportunities

Over the balance of my tenure, I will seek to continue the transformation of GAO into a world class professional services firm able to provide the Congress the best information and analyses possible delivered in a manner timely for appropriations, oversight, authorization, and legislative policy decision-making. While many think that this is a difficult goal to achieve, I believe that we are well on the way there. We will continue seeking to lead by example in all the aforementioned areas, including strategic planning, human capital management, process reengineering, information technology, and financial management. We will continue to examine what we do and how we do it focusing on achieving results. Some specific initiatives contemplated include the following:

- Helping the Congress in addressing challenges relating to the long-term fiscal outlook. GAO's mission of assuring accountability has been and will remain closely linked to supporting congressional oversight and improving government efficiency and effectiveness. However, we believe in the years ahead, this support will prove even more critical because of the pressures that will be created by our country's fiscal outlook. These pressures will require the Congress to make tough choices on what the government does, including how the government does business and who does the government's business in the future. I believe that GAO can be of invaluable assistance in helping the Congress review and reprioritize existing mandatory and discretionary spending programs and tax policies.

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- Transforming government and how government does business. While supporting congressional oversight will remain a major part of our mission, we believe that the work GAO performs in the areas of insight (e.g., determining which programs and policies work and which don't and sharing best practices and benchmarking information, both horizontally across government and vertically through different levels of government) and foresight (e.g., identifying key trends and emerging challenges before they reach crisis proportions and developing proposed frameworks for moving forward, including various options with related pros and cons) will be increasingly important and that our work in these areas needs to be further increased. I believe that GAO can do much to promote and facilitate government transformation, including how government does business. GAO's work in the government transformation area (e.g., DOD business practices, information technology, human capital, Postal Service, and Social Security) has helped the Congress reexamine what the federal government does, what it should do, and how it does it best. An additional focus on foresight activities will be crucial in developing information for congressional decision makers facing the challenges and opportunities of the 21<sup>st</sup> century so that they can fully assess the long-term consequences of today's policy choices.
  - Making GAO the federal employer of choice and the gold standard for a world class professional services organization. Creating high-performing organizations often requires a cultural transformation that can take years to accomplish. GAO is no exception. GAO needs to continue its transformation process. We have made great progress in the past 3 years, but much remains to be done. For example, we have established task teams to examine how we staff our assignments and how we can best facilitate additional matrix management and knowledge sharing. As part of this cultural transformation, we are also hard at work in transforming GAO into a continuous learning organization. Opinion surveys of employees, such as our entry-level staff, indicate that one of the critical elements in their staying with an organization is the ability to continuously learn. Therefore, we must continue to strive to create such an environment through our training programs and employee development efforts. We must also continue, while addressing any skills imbalances and succession planning needs, to invest in our staff.

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## Concluding Observations

Since its creation, GAO has demonstrated that it has been able to adapt to the changing needs of the nation, the Congress, and the American people. Today, we live in a different world than even that of 2 years ago. The increasing interconnectedness of today's world is demonstrated in the issues we care most about—our national security, our economic security, our financial security, our personal security, and our personal health. As evidenced by the testimony that I've delivered today, I have done my best, working closely with our congressional clients and all of GAO's employees, to provide the best professional products and services to the Congress today and to position ourselves to continue to be able to do so in the future. We've also demonstrated that being "world class" doesn't mean a substantial appropriation increase, but rather that an effective, efficient, and creative use of resources, aided by selected additional legislative authorities and flexibilities, can translate into significant pay-offs in the form of real and measurable positive results. However, we believe that GAO, similar to most public and private sector organizations, is only as good as our people. S. 1522 will help us address many of the challenges we face, particularly in the human capital arena, and we urge that this Committee mark up the legislation and, working with the House, enact it before the Congress adjourns for the year.

Madam Chair Collins and Members of the Committee, this concludes my prepared statement. I would be happy to respond to any questions that you may have.

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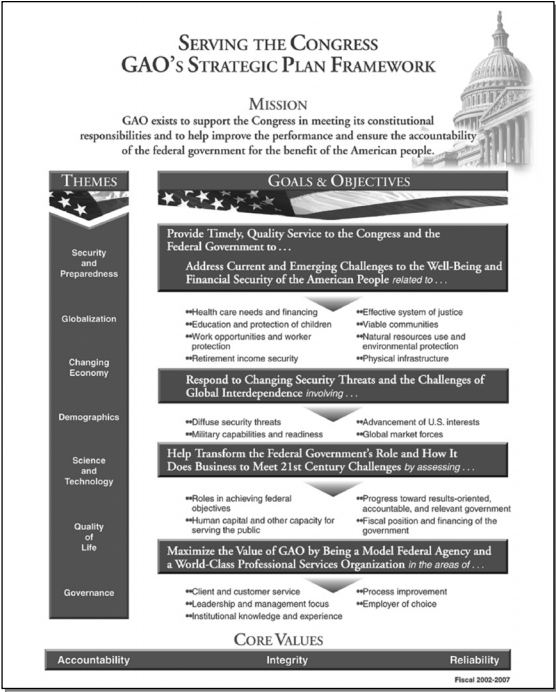
## Contacts

For further information regarding the testimony, please contact David M. Walker, the Comptroller General of the United States, on (202) 512-5500 or at [walkerd@gao.gov](mailto:walkerd@gao.gov), Gene L. Dodaro, Chief Operating Officer (202) 512-5600 or at [dodarog@gao.gov](mailto:dodarog@gao.gov), or Helen H. Hsing, Director of Special Strategic Projects (202) 512-5500 or at [hsing@gao.gov](mailto:hsing@gao.gov)

# GAO's Strategic Plan 2002-2007



## GAO's Strategic Plan



Source: GAO.



## Annual Performance Measures (1998 and 2002)

Performance measure	Actual	
	FY 1998	FY 2002
Financial benefits (billions)	\$19.7	\$37.7
Other benefits	537	906
Past recommendations implemented	69%	79%
Return on investment (ROI)	58:1	88:1
Financial benefits per employee (millions)	\$6.1	\$11.7
Timeliness	93%	96%

Source: GAO.



## GAO's 2002 Reports

### Selected Topics

Food Safety  
Performance-Based Budgeting  
Military Transformation  
School Vouchers  
Restructured Energy Markets  
Securities Regulation  
Election Reform  
Information Security  
FBI Reorganization  
Nursing Homes  
Space Station  
Homeland Security

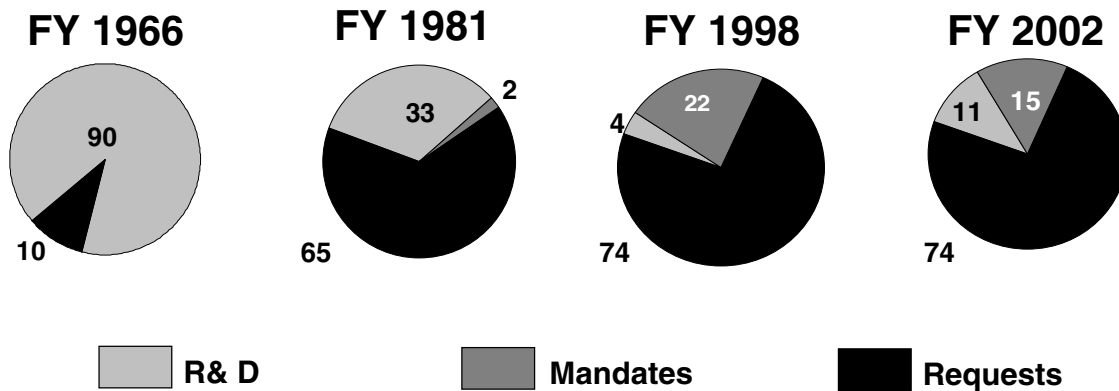
Private Pensions  
Social Security  
Prescription Drugs  
Aviation Safety  
Welfare Reform  
Army Readiness  
Water Quality  
Nuclear Waste  
Export Controls  
Tax Administration  
Drug Control  
Postal Transformation  
Corporate Governance &  
Auditing Failures

Source: GAO.





## The Nature of GAO's Work



Source: GAO.

# GAO's High Risk List

July 2003

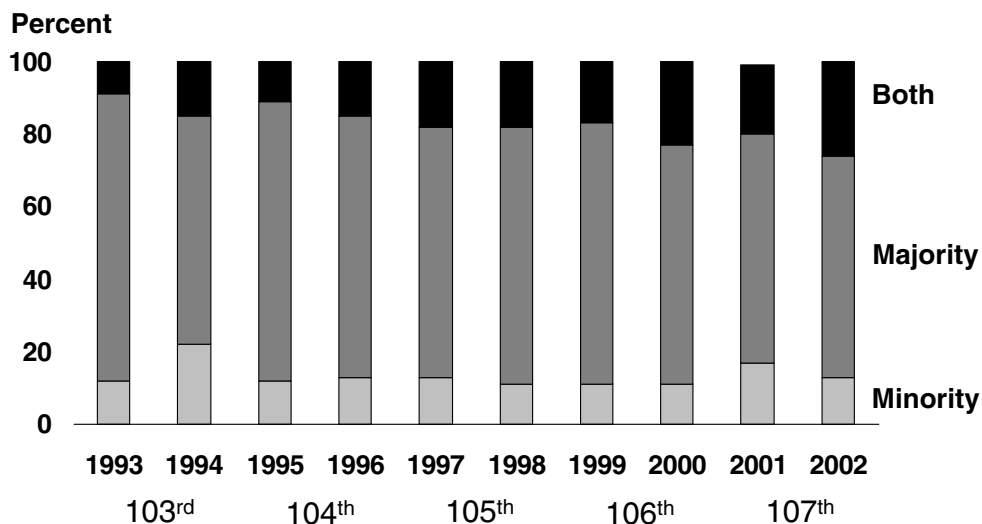
High Risk Areas	Designated High Risk
<b>Addressing Challenges in Broad-based Transformations</b>	
Protecting Information Systems Supporting the Federal Government and The Nation's Critical Infrastructures	1997
Strategic Human Capital Management*	2001
U.S. Postal Service Transformation Efforts and Long-Term Outlook*	2001
Implementing and Transforming the New Department of Homeland Security	2003
Modernizing Federal Disability Programs*	2003
Federal Real Property*	2003
<b>Ensuring Major Technology Investments Improve Services</b>	
FAA Air Traffic Control Modernization	1995
IRS Business Systems Modernization	1995
DOD Systems Modernization	1995
<b>Providing Basic Financial Accountability</b>	
DOD Financial Management	1995
IRS Financial Management	1995
Forest Service Financial Management	1999
FAA Financial Management	1999
<b>Reducing Inordinate Program Risks</b>	
Medicare Program*	1990
Collection of Unpaid Taxes	1990
DOD Inventory Management	1990
Student Financial Aid Programs	1990
HUD Single-Family Mortgage Insurance and Rental Assistance Programs	1994
Earned Income Credit Noncompliance	1995
DOD Support Infrastructure Management	1997
Medicaid Program*	2003
Pension Benefit Guaranty Corporation Single-Employer Insurance Program*	2003
<b>Managing Large Procurement Operations More Efficiently</b>	
DOD Weapon Systems Acquisition	1990
Department of Energy Contract Management	1990
NASA Contract Management	1990
DOD Contract Management	1992

Source: GAO.

\*Additional authorizing legislation is likely to be required as one element of addressing this high risk area.



## Sources of Requested Work During Congressional Sessions

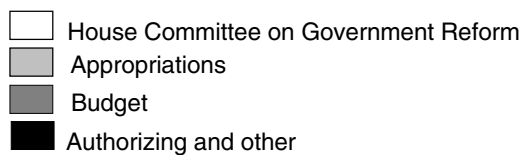
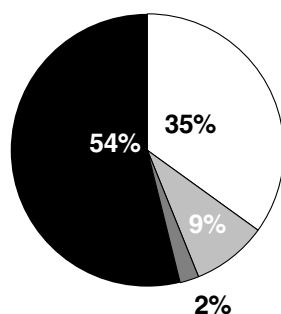


Note: As of 11-18-02  
Source: GAO.

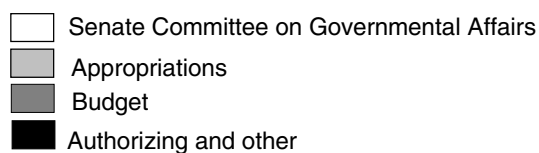
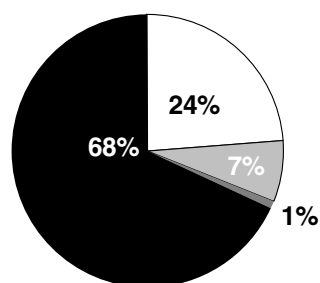


## Engagements For Congressional Committees 107<sup>th</sup> Congress

House Committees



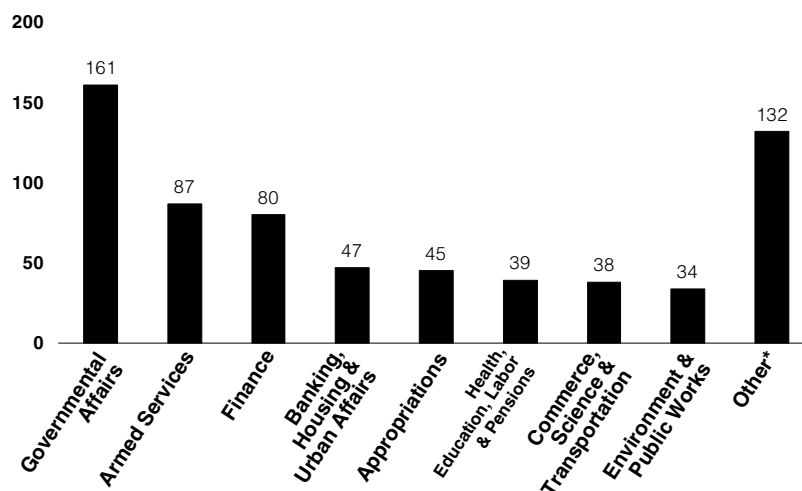
Senate Committees



Source: GAO.



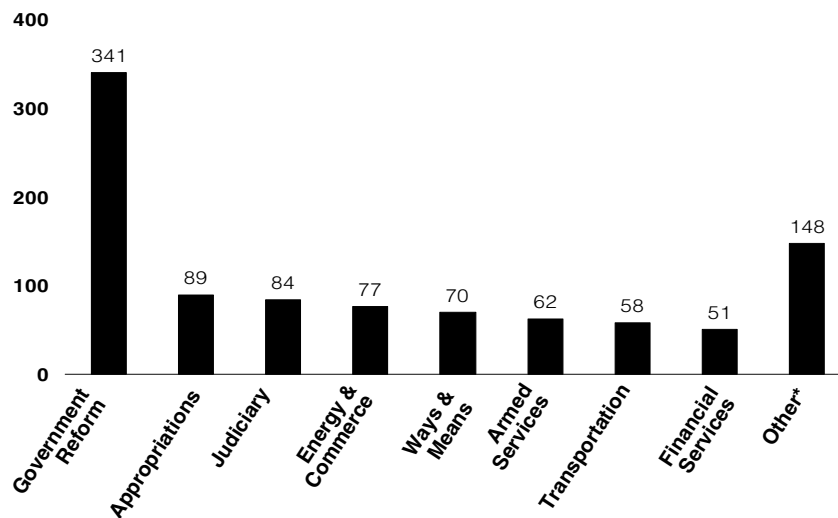
## Engagements For Senate Committees 107<sup>th</sup> Congress



\*Other includes 12 committees: Small Business and Entrepreneurship (27), Judiciary (23), Aging (18), Agriculture, Nutrition and Forestry (14), Veterans Affairs (12), International Narcotics Control (8), Foreign Relations (8), Intelligence (5), Indian Affairs (5), Energy and Natural Resources (5), Budget (4), and Rules and Administration (3).  
Source: GAO.



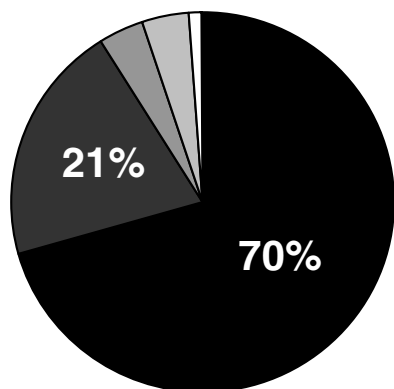
## Engagements For House Committees 107<sup>th</sup> Congress



\*Other includes 12 committees: Veterans Affairs (33), International Relations (26), Budget (18), Resources (17), Education and Workforce (17), Small Business (13), Science (9), Agriculture (5), Intelligence (4), Administration (4), Homeland Security (1), and Rules (1).  
Source: GAO.



## Testimonies (91% Favorable Responses)



- Strongly Agree 70%
- Generally Agree 21%
- Neither Agree Nor Disagree 4%
- Generally Disagree 4%
- Strongly Disagree 1%

March through November 2002  
Surveyed Senate Governmental Affairs and House Government Reform  
57 out of 113 Responses (50%)

Source: GAO.



## Written Products (93% Favorable)



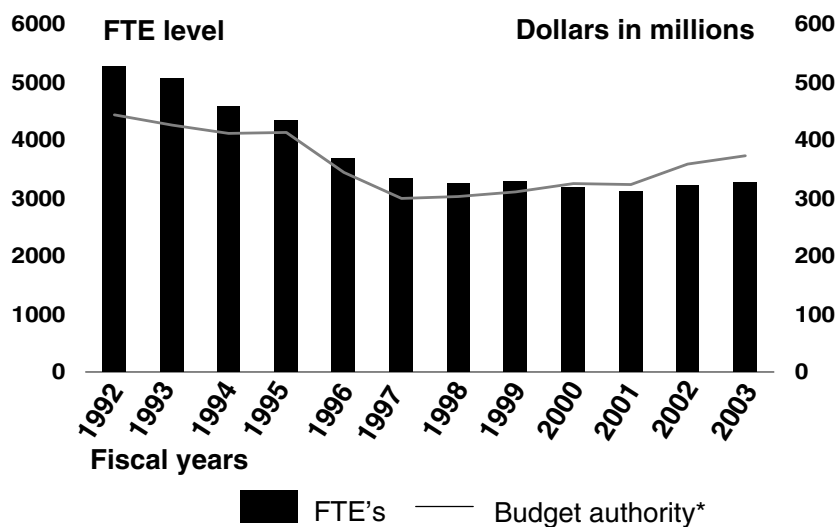
March through November 2002  
Surveyed Senate Governmental Affairs and House Government Reform  
38 out of 80 Responses (48%)

Source: GAO.





## GAO's Budget Authority and FTE Levels Fiscal Years 1992-2003



\*Budget authority is shown in inflation-adjusted 1992 dollars  
Source: GAO.



## Strategic Perspectives of GAO and OIGs

We both maximize government performance and ensure accountability

### GAO

- Government-wide scope
- Horizontal and longer range issues
- Proportionately more audits, evaluations, policy analyses
- Renders opinion on consolidated financial statements
- Performance/Accountability and High Risk List

### OIGs

- Agency scope
- Vertical and immediate issues
- Proportionately more investigations
- Audit agency financial statements
- Management challenges lists

Source: GAO.

# Comptroller General's Testimony of July 16, 2003

GAO

United States General Accounting Office

## Testimony

Before the Subcommittee on Civil Service and Agency  
Organization, Committee on Government Reform, House  
of Representatives

For Release on Delivery  
Expected at 2:00 p.m. EDT  
Wednesday, July 16, 2003

GAO

## Additional Human Capital Flexibilities Are Needed

Statement of David M. Walker  
Comptroller General of the United States



GAO-03-1024T



Highlights of [GAO-03-1024T](#), a testimony before the Subcommittee on Civil Service and Agency Organization, Committee on Government Reform, House of Representatives

### Why GAO Did This Study

The Subcommittee seeks GAO's views on its latest human capital proposal that is slated to be introduced as a bill entitled the GAO Human Capital Reform Act of 2003.

### What GAO Recommends

GAO believes that its proposal is well reasoned and reasonable. Although GAO's request for authority to adjust its annual pay system separate from the executive branch appears broad based, there are compelling reasons why GAO ought to be given this authority. These include the fact that GAO already has a hybrid pay system established by the authority the Congress granted it over two decades ago, the proposed authority is not radical if viewed in the light of authorities already granted and requested by other agencies, and GAO already has a number of key systems and safeguards in place and has plans to build in additional safeguards if granted the authority.

GAO has conducted extensive external and internal outreach efforts on its latest human capital proposal. GAO respectfully requests the Subcommittee's support and prompt passage by the Congress.

[www.gao.gov/cgi-bin/gettrpt?GAO-03-1024T](http://www.gao.gov/cgi-bin/gettrpt?GAO-03-1024T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Sallyanne Harper at (202) 512-5800 or [harpers@gao.gov](mailto:harpers@gao.gov).

July 16, 2003

GAO

## Additional Human Capital Flexibilities Are Needed

### What GAO Found

As an arm of the legislative branch, GAO exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the American people. Unlike many executive branch agencies, which have either recently received or are just requesting new broad-based human capital tools and flexibilities, GAO has had certain human capital tools and flexibilities for over two decades. GAO's latest proposal combines diverse initiatives that, collectively, should further GAO's ability to enhance its performance, assure its accountability, and help ensure that it can attract, retain, motivate, and reward a top-quality and high-performing workforce currently and in future years.

Specifically, GAO is requesting that the Congress (1) make permanent GAO's 3-year authority to offer early outs and buyouts, (2) allow GAO to set its own annual pay adjustment system separate from the executive branch, (3) permit GAO to set the pay of an employee demoted as a result of workforce restructuring or reclassification to keep his/her basic pay but to set future increases consistent with the new position's pay parameters, (4) provide authority to reimburse employees for some relocation expenses when that transfer has some benefit to GAO but does not meet the legal requirements for reimbursement, (5) provide authority to place upper-level hires with fewer than 3 years of federal experience in the 6-hour leave category, (6) authorize an executive exchange program with the private sector, and (7) change GAO's legal name from the "General Accounting Office" to the "Government Accountability Office."

GAO has used the narrowly tailored flexibilities granted by the Congress previously in Public Law 106-303, the GAO Personnel Flexibilities Act, responsibly, prudently, and strategically. GAO believes that it is vitally important to its future to continue modernizing and updating its human capital policies and system in light of the changing environment and anticipated challenges ahead. GAO's proposal represents a logical incremental advancement in modernizing GAO's human capital policies. Based on employee feedback, there is little or no concern relating to most of the proposal's provisions. Although some elements of GAO's initial straw proposal were controversial (e.g., GAO's pay adjustment provision), the Comptroller General has made a number of changes, clarifications, and commitments to address employee concerns. While GAO believes that some employees remain concerned about the pay adjustment provision, GAO also believes that employee concerns have been reduced considerably due to the clarifications, changes, and commitments the Comptroller General has made. Given GAO's human capital infrastructure and unique role in leading by example in major management areas, the rest of the federal government can benefit from GAO's pay system experience.

United States General Accounting Office

Madam Chairwoman and Members of the Subcommittee:

I am pleased to be here today to discuss GAO's latest human capital proposal. Chairwoman Davis, we at GAO appreciate your support of our proposal and your leadership in seeking additional sponsors for the bill you plan to introduce, the GAO Human Capital Reform Act of 2003.

As I have testified on many occasions, strategic human capital management must be the centerpiece of any serious government transformation effort. A key component of this is modern, effective, and credible human capital policies, which are critical to the successful functioning of any enterprise, both public and private. As the Chief Executive Officer and primary steward of GAO, I am not just responsible for GAO's current economy, efficiency, and effectiveness, I am also responsible for ensuring that we are well positioned to serve our congressional clients, maximize our performance, and assure our accountability in the future.

With this important responsibility in mind, I asked this committee and others over 3 years ago to grant GAO certain additional narrowly tailored human capital authorities. In enacting Public Law 106-303, known as the GAO Personnel Flexibilities Act, the Congress granted GAO certain flexibilities, which we have used responsibly to help strategically reshape the organization in order to better support the Congress and the American people. After reviewing the range and limits of our existing administrative and legal authorities, I have concluded that we now need to seek from the Congress additional human capital flexibilities in order for GAO to: ensure quality service to the Congress; continue leading by example in the government transformation, in general, and human capital reform areas in particular; and continue to attract, retain, motivate, and reward a quality and high-performing workforce, both currently and in future years. We believe that our proposal is well reasoned and reasonable, especially if viewed in the light of authorities already granted and requested by other agencies and the extensive external and internal outreach efforts we have conducted. We also respectfully request your support and prompt passage by the Congress.

### GAO: A Unique Agency with a Hybrid System

As an arm of the legislative branch, GAO exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people. Today, GAO is a multidisciplinary professional services organization, comprised of about 3,250 employees,

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that conducts a wide range of financial and performance audits, program evaluations, management reviews, investigations, and legal services spanning a broad range of government programs and functions. GAO's work covers everything from the challenges of securing our homeland, to the demands of an information age, to emerging national security threats, and the complexities of globalization. We are committed to transforming how the federal government does business and to helping government agencies become organizations that are more results oriented and accountable to the public. We are also committed to leading by example in all major management areas.

Given GAO's role as a key provider of information and analyses to the Congress, maintaining the right mix of technical knowledge and subject matter expertise as well as general analytical skills is vital to achieving the agency's mission. Carrying out GAO's mission today is a multidisciplinary staff reflecting the diversity of knowledge and competencies needed to deliver a wide array of products and services to support the Congress. Our mission staff—at least 67 percent of whom have graduate degrees—hold degrees in a variety of academic disciplines, such as accounting, law, engineering, public administration, economics, and social and physical sciences. I am extremely proud of our GAO employees and the difference that they make for the Congress and the nation. They make GAO the world-class organization that it is, and I think it is fair to say that while they account for about 80 percent of our costs, they constitute 100 percent of our real assets.

Because of our unique role as an independent overseer of federal expenditures, fact finder, and honest broker, GAO has evolved into an agency with hybrid systems. This is particularly evident in GAO's personnel and performance management systems. Unlike many executive branch agencies, which have either recently received or are just requesting new broad-based human capital tools and flexibilities, GAO has had certain human capital tools and flexibilities for over two decades. As a result, we have been able to some extent to operate our personnel system with a degree of independence that most agencies in the executive branch do not have. For example, we are excepted from certain provisions of Title 5, which governs the competitive service, and we are not subject to Office of Personnel Management (OPM) oversight.

Until 1980, our personnel system was indistinguishable from those of executive branch agencies—that is, GAO was subject to the same laws, regulations, and policies as they were. However, with the expansion of

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GAO's role in congressional oversight of federal agencies and programs, concerns grew about the potential for conflicts of interest. Could GAO conduct independent and objective reviews of executive branch agencies, such as OPM, when these agencies had the authority to review GAO's internal personnel activities? As a result, GAO worked with the Congress to pass the GAO Personnel Act of 1980, the principal goal of which was to avoid potential conflicts by making GAO's personnel system more independent of the executive branch.

Along with this independence, the act gave GAO greater flexibility in hiring and managing its workforce. Among other things, it granted the Comptroller General authority to

- appoint, promote, and assign employees without regard to Title 5 requirements in these areas;
- set employees' pay without regard to the federal government's General Schedule (GS) pay system's classification standards and requirements; and
- establish a merit pay system for appropriate officers and employees.

By excepting our agency from the above requirements, the GAO Personnel Act of 1980 allowed us to pursue some significant innovations in managing our people. One key innovation was the establishment of a "broad banding," or "pay banding," approach for classifying and paying our Analyst and Attorney workforce in 1989. This was coupled with the adoption of a pay for performance system for this portion of our workforce. Therefore, while other agencies are only now requesting the authority to establish broad banding and pay for performance systems, GAO has had almost 15 years of experience with such systems.

Although GAO's personnel and pay systems are not similar to those of many executive branch agencies, I must emphasize that in important ways, our human capital policies and programs are very much and will continue to remain similar to those of the larger federal community. GAO's current human capital proposal will not change our continued support for certain national goals (e.g., commitment to federal merit principles, protection from prohibited personnel practices, employee due process through a specially created entity—the Personnel Appeals Board (PAB), and application of veterans' preference consistent with its application in the executive branch for appointments and all appropriate reductions-in-

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force). Furthermore, our pay system is and will continue to be consistent with the statutory principle of equal pay for equal work while making pay distinctions on the basis of an individual's responsibilities and performance. In addition, we are covered and will remain covered by Title VII of the Civil Rights Act, which forbids employment discrimination. At GAO, we also emphasize opportunity and inclusiveness for a diverse workforce and have zero tolerance for discrimination of any kind. We have taken and will continue to take disciplinary action when it "will promote the efficiency of the service"—which for us includes such things as GAO's ability to do its work and accomplish its mission.

Although we are not subject to OPM oversight, we are nevertheless subject to the oversight of the Congress including our appropriations committees—the Senate Committee on Appropriations' Subcommittee on the Legislative Branch and the House Committee on Appropriations' Subcommittee on Legislative—and our oversight committees—the Senate Committee on Governmental Affairs and the House Committee on Government Reform. In addition, GAO's management actions are subject to the review of an independent five member board, the Personnel Appeals Board, which performs functions similar to those provided by the Merit Systems Protection Board for federal executive branch employees' personnel grievances. The Congress authorized the establishment of the PAB specifically for GAO in order to protect GAO's independence as an agency. As with other federal executive branch employees, our employees have the right to appeal certain kinds of management actions including removal, suspension for more than 14 days, reductions in pay or grade, furloughs of not more than 30 days, a prohibited personnel practice, an action involving prohibited discrimination, a prohibited political activity, a within-grade denial, unfair labor practices or other labor relations issue. However, they do so to the PAB rather than the MSPB.

While we currently do not have any bargaining units at GAO, our employees are free to join employee organizations, including unions. In addition, we engage in a range of ongoing communication and coordination efforts to empower our employees while tapping their ideas. For example, we regularly discuss a range of issues of mutual interest and concern with our democratically elected Employee Advisory Council (EAC). Chris Keisling, who is a Band III field office representative of the EAC, is testifying with me today. In addition, I consult regularly with our managing directors on issues of mutual interest and concern. In that spirit, I will consult with the managing directors and the EAC before implementing the provisions related to our human capital proposal. As we did with the



flexibilities granted it under Public Law 106-303, the GAO Personnel Flexibilities Act, we will implement the authorities granted under this provision of our proposal only after issuing draft regulations and providing all employees notice and an opportunity for comment. Specifically, for the authorities granted to us under Public Law 106-303, we posted the draft regulations on our internal Web site and sent a notice to all GAO staff advising them of the draft regulations and seeking their comments.

### Key Elements of GAO's Proposal

GAO's proposal combines diverse initiatives that, collectively, should further GAO's ability to enhance our performance, assure our accountability, and help ensure that we can attract, retain, motivate, and reward a top quality and high-performing workforce currently and in future years. These initiatives should also have the benefit of helping guide other agencies in their human capital transformation efforts. Specifically, we are requesting that the Congress provide us the following additional human capital tools and flexibilities:

- make permanent GAO's 3-year authority to offer voluntary early retirement and voluntary separation payments;
- allow the Comptroller General to adjust the rates of basic pay of GAO on a separate basis than the annual adjustments authorized for employees of the executive branch;
- permit GAO to set the pay of an employee demoted as a result of workforce restructuring or reclassification at his or her current rate with no automatic annual increase to basic pay until his or her salary is less than the maximum rate of their new position;
- provide authority in appropriate circumstances to reimburse employees for some relocation expenses when that transfer does not meet current legal requirements for entitlement to reimbursement but still benefits GAO;
- provide authority to put upper-level hires with less than 3 years of federal experience in the 6-hour leave category;
- authorize an executive exchange program with private sector organizations working in areas of mutual concern and involving areas in which GAO has a supply-demand imbalance; and

- change GAO's legal name from the "General Accounting Office" to the "Government Accountability Office."

I will go into more detail later in my testimony on the details and rationale for each of these proposals.

## Process for Developing the Proposal

In developing our proposal, we used a phased approach that involved (1) developing a straw proposal, (2) vetting the straw proposal broadly both externally and internally, and (3) making appropriate adjustments based on comments and concerns raised during the vetting process. As we have previously testified, many of the management tools and flexibilities we needed to pursue modern human capital management approaches are already available to us and we have used them. We have chosen to come to the Congress for legislation only where the tools and flexibilities we have were inadequate for addressing the challenges we faced. For example, the Congress enacted Public Law 106-303 to provide us with certain narrowly tailored flexibilities we needed to reshape our workforce and establish senior-level technical positions in critical areas. These flexibilities were needed to help GAO address the past decade's dramatic downsizing (approximately 40 percent from 1992 through 1997) combined with a significant increase in the retirement-eligible workforce that jeopardized our ability to perform our mission in the years ahead.

In developing our preliminary proposal, we gathered suggestions for addressing GAO's human capital challenges as well as challenges faced by the rest of the federal government, discussed and debated them internally, and compiled a preliminary list of proposals. We received a number of viable proposals that we separated into two groups: (1) proposals that would be more applicable government-wide and (2) proposals GAO should undertake. I had our Office of General Counsel review the proposals GAO should undertake to determine whether we needed to seek legislative authority to implement them or whether I could implement them under the Comptroller General's existing authority.

Mindful of the need to keep the Congress appropriately informed, my staff and I began our outreach to GAO's appropriations and oversight committees on the need for additional human capital flexibilities beginning late last year. In early spring of this year, we shared with these committees a confidential draft of a preliminary draft proposal. We also advised them that we planned to conduct a broad range of outreach and consultation on the proposal with our employees and other interested parties and that we

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would send them our revised legislative proposal at a later date. We conducted an extensive outreach and consultation effort with members of the Congress, including chairmen and ranking minority members of our appropriations and oversight committees and a number of local delegation members; congressional staff; the Director of OPM; the Deputy Director for Management of the Office of Management and Budget; public sector employee associations and unions; and various "good government" organizations.

Within GAO, members of the Executive Committee (EC), which includes our Chief Operating Officer, our General Counsel, our Chief Mission Support Officer and me, engaged in an extensive and unprecedented range of outreach and consultation with GAO employees. This outreach included numerous discussions with our managing directors, who manage most of GAO's workforce, and members of the EAC.

The EAC is an important source of input and a key communications link between executive management and the constituent groups its members represent. Comprising employees who represent a cross-section of the agency, the EAC meets at least quarterly with me and members of our senior executive team. The EAC's participation is an important source of front-end input and feedback on our human capital and other major management initiatives. Specifically, EAC members convey the views and concerns of the groups they represent, while remaining sensitive to the collective best interest of all GAO employees; propose solutions to concerns raised by employees; provide input to and comment on GAO policies, procedures, plans, and practices; and help to communicate management's issues and concerns to employees.

I have also used my periodic "CG chats," closed circuit televised broadcasts to all GAO employees, as a means of explaining our proposal and responding to staff concerns and questions. Specifically, I have held two televised chats to inform GAO staff about the proposal. One of these chats was conducted in the form of a general listening session, open to all headquarters and field office staff, featuring questions from members of the EAC and field office employees. I have also discussed the proposal with the Band IIs (GS-13-14 equivalents) in sessions held in April 2003, and with our Senior Executive Service (SES) and Senior Level members at our May off-site meeting. In addition to my CG chats, I have personally held a number of listening sessions, including a session with members of our Office of General Counsel, two sessions with our administrative support staff, and sessions with staff in several field offices. Furthermore, the Chief

### Nature of GAO Employee Concerns

Operating Officer represented me in a listening session with Band I field office personnel. Finally, I have also personally received and considered a number of E-mails, notes, and verbal comments on the human capital proposal.

I would like to point out to others seeking human capital flexibilities that the outreach process, while necessary, is indeed time-consuming and requires real and persistent commitment on the part of an agency's top management team. In order for the process to work effectively, it also requires an ongoing education and dialogue process that will, at times, involve candid, yet constructive, discussion between management and employees. This is, however, both necessary and appropriate as part of the overall change management process. To facilitate the education process on the proposal, we posted materials on GAO's internal website, including Questions and Answers developed in response to employees' questions and concerns, for all employees to review. Unfortunately, others who have sought and are seeking additional human capital flexibilities have not employed such an extensive outreach process.

Based on feedback from GAO employees, there is little or no concern relating to most of the provisions in our proposal. There has been significant concern expressed over GAO's proposal to decouple GAO's pay system from that of the executive branch. Some concerns have also been expressed regarding the pay retention provision and the proposed name change. As addressed below, we do believe, however, that these employee concerns, have been reduced considerably due to the clarifications, changes, and commitments resulting from our extensive outreach and consultation effort.

On the basis of various forms of GAO employee feedback, it is not surprising, since pay is important to all employees, that the provision that has caused the most stir within GAO has been the pay adjustment provision. Fundamentally, some of our employees would prefer to remain with the executive branch's GS system for various types of pay increases. There are others close to retirement who are concerned with their "high three" and how the modified pay system, when fully implemented, might affect permanent base pay, which is the key component of their retirement annuity computation. Overall, there is a great desire on the part of GAO employees to know specifically how this authority would be implemented.

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It is important to note that, even in the best of circumstances, it is difficult to garner a broad-based consensus of employee support for any major pay system changes. While it is my impression, based on employee feedback, that we have made significant strides in allaying the significant initial concerns expressed by employees regarding the pay adjustment provision, I believe that some of these concerns will remain throughout implementation. In addition, some can never be resolved because they involve philosophical differences or personal interest considerations on behalf of individual GAO employees.

GAO's history with pay banding certainly is illustrative of how difficult it is for an organization to allay employee fears even in the face of obvious benefits. While history has proven that an overwhelming majority of GAO employees have benefited from GAO's decision to migrate our Analysts and Attorneys into pay banding and pay for performance systems, there was significant opposition by GAO employees regarding the decision to move into these systems. The experience of the executive branch's pay demonstration projects involving federal science and technology laboratories shows that employee support at the beginning of the pay demonstration projects ranged from 34 percent to 63 percent. In fact, OPM reports that it takes about 5 years to get support from two-thirds of employees with managers generally supporting demonstrations at a higher rate than employees.

Following the pay adjustment provision but a distant second in terms of employee concern, has been the pay reclassification provision, which would allow GAO employees demoted as a result of workforce restructuring or reclassification to keep their basic pay rates; however, future pay increases would be set consistent with the new positions' pay parameters. Currently, employees subject to a reduction-in-force or reclassification can be paid at a rate that exceeds the value of their duties for an extended period.

A distant third in terms of employee concern is the proposed name change from the "General Accounting Office" to the "Government Accountability Office," which would allow the agency's title to more accurately reflect its mission, core values, and work. My sense is that some GAO employees who have been with GAO for many years have grown comfortable with the name and may prefer to keep it. At the same time, I believe that a significant majority of our employees support the proposed name change. Importantly, all of our external advisory groups, including the Comptroller General's Advisory Council, consisting of distinguished individuals from

the public and private sectors, and the Comptroller General's Educators Advisory Council, consisting of distinguished individuals from the academic community, and a variety of "good government" groups strongly support the proposed name change.

### Changes Made in Response to Employee Feedback

The members of the EC and I took our employees' feedback seriously and have seriously considered their concerns. Key considerations in our decision making were our institutional responsibility as leaders and stewards of GAO and the overwhelming support expressed through anonymous balloting by our senior executives, who also serve as leaders and stewards for GAO, for proceeding with all of the provisions of our human capital proposal, including the pay adjustment provision. Specifically, in a recent confidential electronic balloting of our senior executives, support for each element of our proposal ranged from over 2 to 1 to unanimous, depending on the provision. Support for the proposed pay adjustment provision was over 3 to 1, and support for the proposed pay protection provision was over 4 to 1. Given this and other considerations, ultimately, we decided to proceed with the proposal but adopted a number of the suggestions made by employees in these sessions, including several relating to the proposal to decouple GAO annual pay adjustments from those applicable to many executive branch agencies.

A key suggestion adopted include a minimum 2-year transition period for ensuring the smooth implementation of the pay provisions which would also allow time for developing appropriate methodologies and issuing regulations for notice and comment by all employees. Another key suggestion adopted was the commitment to guarantee annual across the board purchase power protection and to address locality pay considerations to all employees rated as performing at a satisfactory level or above (i.e., meeting expectations or above) absent extraordinary economic circumstances or severe budgetary constraints. We have chosen to implement this guarantee through a future GAO Order rather than through legislative language because prior "pay protection" guarantees relating to pay banding made by my predecessor, Comptroller General Charles A. Bowsher, used this means effectively to document and operationalize that guarantee. I have committed to our employees that I would include this guarantee in my statement here today so that it could be included as part of the legislative record. Additional safeguards relating to our pay proposal are set forth below.

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### Voluntary Early Retirement and Separation Incentive Payment Authorities

The following represents additional information regarding our specific proposal.

Section 2 of our proposal would make permanent the authority of GAO under section 1 and 2 of Public Law 106-303, the GAO Personnel Flexibilities Act of 2000, to offer voluntary early retirements (commonly termed "early outs") and voluntary separation payments (commonly termed "buyouts") to certain GAO employees when necessary to realign GAO's workforce in order to meet budgetary or mission needs, correct skill imbalances, or reduce high-grade positions. We believe that we have behaved responsibly in exercising the flexibilities that the Congress granted us and deserve a permanent continuation of these authorities. In addition, the two flexibilities which we would like to be made permanent are narrowly drawn and voluntary in nature, since the employees have the right to decide if they are interested in being considered for the benefits. Further, the provisions also have built in limits: no more than 10 percent of the workforce in any one year can be given early outs and no more than 5 percent can be given buyouts.

GAO's transformation effort is a work in progress, and for that reason, the agency is seeking legislation to make the voluntary early retirement provision in section 1 of the law permanent. While the overall number of employees electing early retirement has been relatively small, GAO believes that careful use of voluntary early retirement has been an important tool in incrementally improving the agency's overall human capital profile. Each separation has freed resources for other uses, enabling GAO to fill an entry-level position or to fill a position that will reduce a skill gap or address other succession concerns. Similarly, we are seeking legislation to make section 2—authorizing the payment of voluntary separation incentives—permanent. Although GAO has not yet used its buyout authority and has no plans to do so in the foreseeable future, we are seeking to retain this flexibility. The continuation of this provision maximizes the options available to the agency to deal with future circumstances, which cannot be reasonably anticipated at this time. Importantly, this provision seems fully appropriate since the Homeland Security Act of 2002 provides most federal agencies with permanent early out and buyout authority.

Public Law 106-303 required that GAO perform an assessment of the exercise of the authorities provided under that law, which included the authority for the Comptroller General to provide voluntary early retirement

and voluntary separation incentive payments. With your permission, I would like to submit the assessment entitled *Assessment of Public Law 106-303: The Role of Personnel Flexibilities in Strengthening GAO's Human Capital*, issued on June 27, 2003, for the record. I will now highlight for you our observations from that assessment on voluntary early retirement and buyouts.

#### Voluntary Early Retirement

Public Law 106-303 also allows the Comptroller General to offer voluntary early retirement to up to 10 percent of the workforce when necessary or appropriate to realign the workforce to address budgetary or mission constraints; correct skill imbalances; or reduce high-grade, supervisory, or managerial positions. This flexibility represents a proactive use of early retirement to shape the workforce to prevent or ameliorate future problems. GAO Order 2931.1, Voluntary Early Retirement, containing the agency's final regulations, was issued in April 2001. Under the regulations, each time the Comptroller General approves a voluntary early retirement opportunity, he establishes the categories of employees who are eligible to apply. These categories are based on the need to ensure that those employees who are eligible to request voluntary early retirement are those whose separations are consistent with one or more of the three reasons for which the Comptroller General may authorize early retirements. Pursuant to GAO's regulations, these categories are defined in terms of one or more of the following criteria:

- organizational unit or subunits,
- occupational series,
- grade or band level,
- skill or knowledge requirements,
- performance appraisal average,
- geographic location, or
- other similar factors that the Comptroller General deems necessary and appropriate.

Since it is essential that GAO retain employees with critical skills as well as its highest performers, certain categories of employees have been ineligible



under the criteria. Some examples of ineligible categories are employees receiving retention allowances because of their unusually high or unique qualifications; economists, because of the difficulty that the agency has experienced in recruiting them; and staff in the information technology area. In addition, employees with performance appraisal averages above a specified level have not been eligible under the criteria.

To give the fullest consideration to all interested employees, however, any employee may apply for consideration when an early retirement opportunity is announced, even if he or she does not meet the stated criteria. Furthermore, under our order, the Comptroller General may authorize early retirements for these applicants on the basis of the facts and circumstances of each case. The Comptroller General or his EC designee considers each applicant and makes final decisions based on GAO's institutional needs. Only employees whose release is consistent with the law and GAO's objective in allowing early retirement are authorized to retire early. In some cases, this has meant that an employee's request must be denied.

GAO held its first voluntary early retirement opportunity in July 2001. Employees who were approved for early retirement were required to separate in the first quarter of fiscal 2002. As required by the act, information on the fiscal 2002 early retirements was reported in an appendix to our 2002 Performance and Accountability Report. Another voluntary early retirement opportunity was authorized in fiscal 2003, and employees were required to separate by March 14, 2003. In anticipation of the 3-year sunset on our authority to provide voluntary early retirements, I have recently announced a final voluntary early retirement opportunity under our current authority. Table 1 provides the data on the number of employees separated by voluntary early retirement as of May 30, 2003.

Table 1: Summary Data on Voluntary Early Retirements

Applications/Status of applications	Fiscal 2002		Fiscal 2003		Totals	
	Number	Percentage of total	Number	Percentage of total	Number	Percentage of total
Total applications submitted	78	100.0	39	100.0	117	100.0
Approved applications	72	92.3	37	94.8	109	93.1
Disapproved applications	6	7.7	2	5.1	8	6.8
Approved applications withdrawn by employees	18	23.0	12	30.7	30	25.6
Applicants separated by voluntary early retirement	54	69.3	25	64.1	79	67.5

Source: GAO.

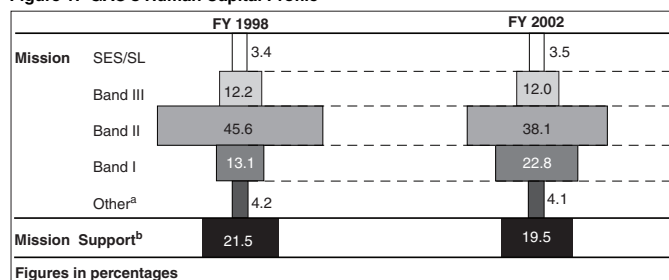
As you can see from the table, of the 79 employees who separated from GAO through voluntary early retirement, 66, or 83.5 percent, were high-grade, supervisory, or managerial employees. High-grade, supervisory, or managerial employees are those who are GS-13s or above, if covered by GAO's GS system; Band IIs or above, if covered by GAO's banded systems for Analysts and Attorneys; or in any position in GAO's SES or Senior-Level system.

In recommending that GAO's voluntary early out authority be made permanent, I would like to point to our progress in changing the overall shape of the organization. The 1990s were a difficult period for ensuring that GAO's workforce would remain appropriately sized, shaped, and skilled to meet client demands and agency needs. Severe downsizing of the workforce, including a suspension of most hiring from 1992 through 1997, and constrained investments in such areas as training, performance incentives, rewards, and enabling technology left GAO with a range of human capital and operational challenges to address. Over 3 years ago, when GAO sought additional human capital flexibilities, our workforce was sparse at the entry level and plentiful at the midlevel. We were concerned about our ability to support the Congress with experienced and knowledgeable staff over time, given the significant percentage of the agency's senior managers and analysts reaching retirement eligibility and the small number of entry-level employees who were training to replace more senior staff.

As illustrated in figure 1, by the end of fiscal year 2002, GAO had almost a 74 percent increase in the proportion of staff at the entry level (Band I)

compared with fiscal year 1998. Also, the proportion of the agency's workforce at the midlevel (Band II) decreased by 16 percent.

**Figure 1: GAO's Human Capital Profile**



Source: GAO.

### Voluntary Separation Payments

In addition to authorizing voluntary early retirement for GAO employees, Public Law 106-303 permits the Comptroller General to offer voluntary separation incentive payments—buyouts—when necessary or appropriate to realign the workforce to meet budgetary constraints or mission needs; correct skill imbalances; or reduce high-grade, supervisory, or managerial positions. Under the act, up to 5 percent of employees could be offered such an incentive, subject to criteria established by the Comptroller General.

The act requires GAO to deposit into the U.S. Treasury an amount equivalent to 45 percent of the final annual basic salary of each employee to whom a buyout is paid. The deposit is in addition to the actual buyout amount, which can be up to \$25,000 for an approved individual. Given the many demands on agency resources, these costs present a strong financial disincentive to use the provision if at all. GAO anticipates little, if any, use of this authority because of the associated costs. For this reason, as well as to avoid creating unrealistic employee expectations, GAO has not developed and issued agency regulations to implement this section of the act. Nevertheless, as stated earlier, it is prudent for us to seek the continuation of this provision because it maximizes the options available to the agency to deal with future circumstances. Since GAO is also eligible to request buyouts under the provisions of the Homeland Security Act, the

### Annual Pay Setting Policy and Adjustments

agency will consider its options under this provision as well. However, under the Homeland Security Act, GAO would have to seek OPM approval of any buyouts, which raises serious independence concerns.

Section 3 and 4 of our proposal would provide GAO greater discretion in determining the annual across the board and locality pay increases for our employees. Under our proposal, GAO would have the discretion to set annual pay increases by taking into account alternative methodologies from those used by the executive branch and various other factors, such as extraordinary economic conditions or serious budgetary constraints. While the authority requested may initially appear to be broad based, there are compelling reasons why GAO ought to be given such authority. First, as I discussed at the beginning of my testimony, GAO is an agency within the legislative branch and already has a hybrid pay system established under the authority the Congress granted over two decades ago. Therefore, our proposal represents a natural evolution in GAO's pay for performance system. Second, GAO's proposal is not radical if viewed from the vantage point of the broad-based authority that has been granted the Department of Homeland Security (DHS) under the Homeland Security Act of 2002; agencies that the Congress has already granted the authority to develop their own pay systems; the authorities granted to various demonstration projects over the past two decades; and the authority Congress is currently contemplating providing the Department of Defense (DOD). Third, GAO already has a number of key safeguards and has plans to build additional safeguards into our modified pay system if granted this authority.

Our proposal seeks to take a constructive step in addressing what has been widely recognized as fundamental flaws in the federal government's approach to white-collar pay. These flaws and the need for reform have been addressed in more detail in OPM's April 2002 White Paper, *A Fresh Start For Federal Pay: A Case for Modernization*, and more recently the National Commission on the Public Service's January 2003 report on revitalizing the public service. The current federal pay and classification system was established over 60 years ago for a federal workforce that was made up largely of clerks performing routine tasks which were relatively simple to assess and measure. Today's federal workforce is composed of much higher graded and knowledge-based workers.

Although there have been attempts over the years to refine the system by enacting such legislation as the Federal Employees Pay Comparability Act (FEPCA) which sought to address, among other things, the issue of pay

comparability with the nonfederal sector, the system still contains certain fundamental flaws. The current system emphasizes placing employees in a relative hierarchy of positions based on grade; is a "one size fits all approach" since it does not recognize changes in local market rates for different occupations; and is performance insensitive in that all employees are eligible for the automatic across the board pay increases regardless of their performance. Specifically, the annual across the board base pay increase, also commonly referred to as the cost of living adjustment (COLA) or the January Pay Increase which the President recommends and the Congress approves, provides a time driven annual raise keyed to the Employment Cost Index (ECI) to all employees regardless of performance. In certain geographic areas, employees receive a locality adjustment tied to the local labor markets. However, in calculating the locality adjustment, for example, it is my understanding that FEPCA requires the calculation of a single average, based on the dominant federal employer in an area, which does not sufficiently recognize the differences in pay rates for different occupations and skills. In view of the fact that today we are in a knowledge-based economy competing for the best knowledge workers in the job market, I believe that new approaches and methodologies are warranted. This is especially appropriate for GAO's highly educated and skilled workforce.

Our proposed pay adjustment provision along with the other provisions of GAO's human capital proposal are collectively designed to help GAO maintain a competitive advantage in attracting, motivating, retaining, and rewarding a high performing and top-quality workforce both currently and in future years. First, under our proposal, GAO would no longer be required to provide automatic pay increases to employees who are rated as performing at a below satisfactory level. Second, when the proposal is fully implemented, GAO would be able to allocate more of the funding—currently allocated for automatic across-the-board pay adjustments to all employees—to permanent base pay adjustments that would vary based on performance. In addition, our proposal would affect all GAO, non-wage grade employees, including the SES and Senior Level staff.

Ultimately, if GAO is granted this authority, all GAO employees who perform at a satisfactory level will receive an annual base pay adjustment composed of purchase power protection and locality based pay increases absent extraordinary economic circumstances or severe budgetary constraints. GAO will be able to develop and apply its own methodology for annual cost-of-living and locality pay adjustments. The locality pay increase would be based on compensation surveys conducted by GAO and

which would be tailored to the nature, skills, and composition of GAO's workforce. The performance part of an employee's annual raise would depend on the level of the employee's performance and that employee's pay band. We estimate that at least 95 percent of the workforce will qualify for an additional performance-based increase. However, under this provision, employees who perform below a satisfactory level will not receive an annual increase of either type.

#### How GAO Plans to Use This Authority

GAO's major non-SES pay groups include (1) Analysts and Attorneys which comprises the majority of our workforce and is our mission group, (2) the Professional Development Program staff (PDP) which is our entry level mission group, (3) the Administrative Professional Support Staff (APSS), which is our mission support group for the most part, and (4) Wage Grade employees who primarily operate our print plant. Each of these groups currently operate in a different pay system. Generally, our mission staff are all in pay bands whereby they currently receive the annual across-the-board base pay increase and locality pay increase similar to the GS pay system, along with performance-based annual increases that are based on merit. Generally, our mission support staff, with some exceptions, remain in a system similar to the GS pay system with its annual across-the-board pay increases, locality pay, quality step increases, and within grade increases. We are currently in the process of migrating the mission support staff into pay bands and a pay for performance system. Our Wage Grade staff will continue to be covered by the federal compensation system for trade, craft, and laboring employees. Because of the small number of employees and the nature of their work, we have no plans to apply the pay adjustment provision authority to this group.

I would like to point out the tables in appendices I through IV, which succinctly describe how GAO plans to operationalize our authority under our proposed annual pay adjustment provision over time.

#### GAO's Proposed Pay Authority Is Reasonable

GAO's proposal for additional pay flexibility is reasonable in view of the authority the Congress has already granted DHS through the Homeland Security Act of 2002; the other agencies for whom the Congress has granted the authority to develop their own pay systems; the demonstration projects that OPM has authorized; and the authorities that other agencies in the executive branch are currently seeking (e.g., DOD).

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While we are aware that the passage of the Homeland Security Act of 2002 was not without its difficult moments, particularly with respect to the broad-based authorities granted the department, we are also aware that the process employed by DOD and certain of its human capital proposals are highly controversial. It is important to point out that GAO's proposal and proposed pay flexibilities pale in respect to those granted to the DHS and to those requested by the DOD in the Defense Transformation for the 21<sup>st</sup> Century Act of 2003. Collectively, these two agencies represent almost 45 percent of the non-postal federal civilian workforce. Specifically, in November 2002, the Congress passed the Homeland Security Act of 2002, which created DHS and provided the department with significant flexibilities to design a modern human capital management system, which could have the potential, if properly developed, for application governmentwide. DOD's proposed National Security Personnel System (NSPS) would provide wide-ranging changes to its civilian personnel pay and performance management systems, collective bargaining, rightsizing, and a variety of other human capital areas. NSPS would enable DOD to develop and implement a consistent, DOD-wide civilian personnel system.

In addition to DHS, there are a number of federal agencies with authority for their own pay systems. Some of these agencies are, for example, the Congressional Budget Office, which is one of our sister agencies in the legislative branch; the Federal Aviation Administration (FAA); the Securities and Exchange Commission (SEC) ; and the Office of the Comptroller of the Currency (OCC) within the Department of the Treasury. When the Congress created the CBO in 1974, it granted that legislative branch agency significant flexibilities in the human capital area. For example, CBO has "at will" employment. In addition, CBO is not subject to the annual executive branch pay adjustments. Further, CBO has extensive flexibility regarding its pay system subject only to certain statutory annual compensation limits.

Furthermore, there are twelve executive branch demonstration projects involving pay for performance. These projects have taken different approaches to the sources of funding for salary increases that are tied to performance and not provided as entitlements. Many of the demonstration projects reduce or deny the annual across the board base pay increase for employees with unacceptable ratings (e.g., the Department of Navy's China Lake demonstration, DOD's Civil Acquisition Workforce demonstration, the Department of Air Force's Research Laboratory demonstration, and the Department of Navy's Research Laboratory demonstration, among others.) Others, including the National Institute of Standards and Technology and

the Department of Commerce demonstration projects, deny both the annual across the board base pay increase and the locality pay adjustment for employees with unacceptable ratings.

Currently, this Congress is considering a NASA human capital proposal. This proposal would provide NASA with further flexibilities and authorities for attracting, retaining, developing, and reshaping a skilled workforce. These include a scholarship-for-service program; a streamlined hiring authority for certain scientific positions; larger and more flexible recruitment, relocation, and retention bonuses; noncompetitive conversions of term employees to permanent status; a more flexible critical pay authority; a more flexible limited-term appointment authority for the SES; and greater flexibility in determining annual leave accrual rate for new hires.

#### Safeguards Provided

As we have testified, agencies should have modern, effective, credible, and as appropriate, validated performance management systems in place with adequate safeguards, including reasonable transparency and appropriate accountability mechanisms, to ensure fairness and prevent politicization and abuse. While GAO's transformation is a work in progress, we believe that we are in the lead compared to executive branch agencies in having the human capital infrastructure in place to provide such safeguards and implement a modified pay system that is more performance oriented. Specifically, for our Analyst pay group, we have gone through the first cycle of a validated performance management system that has adequate safeguards, including reasonable transparency and appropriate accountability mechanisms. We have learned from what has worked and what improvements can and should be made with respect to the first cycle. In fact, we have adopted many of the recommendations and suggestions of our managing directors and EAC and are now in the process of implementing these suggestions.

The following is an initial list of possible safeguards, developed at the request of Congressman Danny Davis, for Congress to consider to help ensure that any pay for performance systems in the government are fair, effective, and credible. GAO's current human capital infrastructure has most of these safeguards built in, and the others are in the process of being incorporated.

- Assure that the agency's performance management systems (1) link to the agency's strategic plan, related goals, and desired outcomes and



(2) result in meaningful distinctions in individual employee performance. This should include consideration of critical competencies and achievement of concrete results.

- Involve employees, their representatives, and other stakeholders in the design of the system, including having employees directly involved in validating any related competencies, as appropriate.
- Ensure that certain predecisional internal safeguards exist to help achieve the consistency, equity, nondiscrimination, and nonpoliticization of the performance management process (e.g., independent reasonableness reviews by the human capital offices and/or the offices of opportunity and inclusiveness or its equivalent in establishing and implementing a performance appraisal system, as well as reviews of performance rating decisions, pay determinations, and promotion actions before they are finalized to ensure that they are merit-based; internal grievance processes to address employee complaints; and pay panels predominately made up of career officials who would consider the results of the performance appraisal process and other information in making final pay decisions).
- Assure reasonable transparency and appropriate accountability mechanisms in connection with the results of the performance management process (e.g., publish overall results of performance management and pay decisions while protecting individual confidentiality, and report periodically on internal assessments and employee survey results).

#### Transition Period

We have provided a statutory period minimum to allow for a smooth implementation of the law as it applies to both our mission and mission support staff. Specifically, for our Analyst and Attorney communities, we plan to allow for at least a two-year period, during which they will continue to receive their annual across the board pay raise and their locality pay, if applicable, based on the amount set by the GS system. Once the proposal is fully implemented, the new across-the-board increase, which provides for inflation protection and locality pay where applicable, would be computed based on GAO compensation studies, and the performance-based merit pay would be provided based on an employee's performance.

For our APSS employees, the transition period of at least 2 years would allow for a smooth migration to the pay bands and the implementation of at

least one performance cycle of a newly validated competency based performance appraisal system for that component of GAO's workforce. Our APSS employees are currently still in the GS system, but we are in the process of moving them into pay bands. We will allow time for the group to migrate to broad bands and to have at least one performance cycle under pay bands before moving it into the new pay system. Therefore, as with the analysts and attorneys, the administrative support staff will move into a hybrid pay system once they migrate to pay bands. Also, as with the analysts and attorneys, I have committed to providing them "pay protection." This guarantee would continue even after GAO's authority to adjust pay is fully implemented.

We have a small Wage Grade community of under 20 employees. As mentioned earlier, we do not contemplate having the pay adjustment provision apply to them.

#### "Pay Protection" Guarantee

My predecessor, Comptroller General Charles A. Bowsheer, provided the analysts and attorneys a "pay protection" guarantee at the time of their conversion to broad bands. This guarantee, later spelled out in a GAO order, provided that the analyst and attorneys rated as meeting expectations in all categories would fare at least as well under pay bands as under the GS system. This guarantee would not apply to employees who are promoted after conversion or demoted, and to new employees hired after the conversion. It is my understanding that this guarantee provided by my predecessor is unique to GAO and has generally not been applied by other agencies that have migrated their employees to pay bands.

Currently, 535 GAO employees are still covered by this "pay protection" guarantee, while less than 10 employees annually have their pay readjusted after the merit pay process. I have committed to GAO employees that even if we receive the new pay adjustment authority, I would still honor my predecessor's pay protection guarantee. In addition, our mission support staff will also receive this guarantee upon conversion to pay bands. This guarantee will continue through the implementation period for our new human capital authority.

#### Pay Retention

Section 5 of our proposal would allow GAO not to provide any automatic increase in basic pay to an employee demoted as a result of workforce restructuring or reclassification at his or her current rate until his or her

salary is less than the maximum rate of the new position. Under current law, the grade and pay retention provisions allow employees to continue to be paid at a rate that exceeds the value of the duties they are performing for an extended period. Specifically, employees who are demoted (e.g., incur a loss of grade or band) due to, among other things, reduction-in-force procedures or reclassification receive full statutory pay increases for 2 years and then receive 50 percent of the statutory pay increases until the pay of their new positions falls within the range of pay for those positions. We believe that this antiquated system is inconsistent with the merit principle that there should be equal pay for work of equal value.

In granting GAO this authority, we would be able to immediately place employees in the band or grade commensurate with their roles and responsibilities. It is important to note that we have a key safeguard—employees whose basic pay exceeds the maximum rate of the grade or band in which the employee is placed will not have their basic pay reduced. These employees, who would still be eligible to increase their overall pay through certain types of performance-based awards (e.g., incentive awards), would retain this rate until their basic pay is less than the maximum for their grade or band. As with all the provisions in our proposal, we will not implement this pay retention provision until we have consulted with the EAC and managing directors and have provided all GAO employees an opportunity for notice and comment on any regulations.

### Relocation Expenses

Section 6 would provide GAO the authority, in appropriate circumstances, to reimburse employees for some relocation expenses when transfers do not meet current legal requirements for entitlement to reimbursement but still benefit GAO. Under current law, employees who qualify for relocation benefits are entitled to full benefits; however, employees whose transfer may be of some benefit or value to the agency would not be eligible to receive any reimbursement. This provision would provide these employees some relief from the high cost of relocating while at the same time allowing GAO the flexibility to promulgate regulations in order to provide such relief. This authority has been previously granted to other agencies, including the FAA.

### Leave for Upper Level Hires

Section 7 of the proposal provides GAO the authority to provide 160 hours (20 days) of annual leave to appropriate employees in high-grade, managerial or supervisory positions who have less than 3 years of federal

service. This is narrowly tailored authority that would apply only to GAO and not to executive branch agencies. While it is been a long-standing tenet that all federal employees earn annual leave based on years of federal service, we believe that there is substantial merit in revisiting this in view of today's human capital environment and challenges. We have found that, in recruiting experienced mid- and upper-level hires, the loss of leave they would incur upon moving from the private to the federal sector is a major disincentive. For example, an individual, regardless of the level at which he enters first enters the federal workforce, is eligible to earn 4 hours of annual leave for each pay period and, therefore, could accrue a total of 104 hours (13 days) annually so long as they do not use any of that leave during the year. This amount increases to 6 hours of annual leave after 3 years of federal service. By increasing the annual leave that certain newly hired officers and employees may earn, this provision is designed to help attract and retain highly skilled employees needed to best serve the Congress and the country.

### Executive Exchange Program

Section 8 would authorize GAO to establish an executive exchange program between GAO and private sector entities. Currently, GAO has the authority to conduct such an exchange with public entities and non profit organizations under the Intergovernmental Personnel Act; there is no such authority for private sector exchanges. Under this program, high-grade, managerial or supervisory employees from GAO may work in the private sector, and private sector employees may work at GAO. While GAO will establish the details of this program in duly promulgated regulations, we have generally fashioned, with exceptions where appropriate, the legal framework for this program on the Information Technology Exchange Program authorized by Public Law 107-347, the E-Government Act of 2002, which the Congress enacted to address human capital challenges within the executive branch in the information technology area.

While the Information Technology Exchange Program only involves technology exchanges, GAO's exchange program will cover not only those who work in information technology fields, but also accountants, economists, lawyers, actuaries, and other highly skilled professionals. This program will help us address certain skills imbalances in such areas as well as a range of succession planning challenges. Specifically, by fiscal year 2007, 52 percent of our senior executives, 37 percent of our management-level analysts, and 29 percent of our analysts and related staff will be eligible for retirement. Moreover, at a time when a significant percentage of our workforce is nearing retirement age, marketplace, demographic,

economic, and technological changes indicate that competition for skilled employees will be greater in the future, making the challenge of attracting and retaining talent even more complex.

One of the key concerns raised in the past regarding private sector exchange programs has been the issue of conflict of interest. We believe that in this regard GAO differs from executive branch agencies in that, as reviewers, we are not as subject to potential conflicts of interest. Nevertheless, it is important to note in requesting this authority that we have made clear that the private sector participants would be subject to the same laws and regulations regarding conflict of interest, financial disclosure, and standards of conduct applicable to all employees of GAO. Under the program, private sector participants would receive their salaries and benefits from their employers and GAO need not contribute to these costs. We also believe that this will also encourage private sector individuals to devote a portion of their careers to the public sector without incurring substantial financial sacrifice.

### Changing GAO's Name to the "Government Accountability Office"

Section 9 would change the name of our agency from the "General Accounting Office" to the "Government Accountability Office." At the same time, the well-known acronym "GAO," which has over 80 years of history behind it, will be maintained. We believe that the new name will better reflect the current mission of GAO as incorporated into its strategic plan, which was developed in consultation with the Congress. As stated in GAO's strategic plan, our activities are designed to ensure the executive branch's accountability to the American people. Indeed, the word accountability is one of GAO's core values along with integrity and reliability. These core values are also incorporated in GAO's strategic plan for serving the Congress.

The GAO of today is a far cry from the GAO of 1921, the year that the Congress established it through the enactment of the Budget and Accounting Act. In 1921, GAO pre-audited agency vouchers for the legality, propriety, and accuracy of expenditures. In the 1950s, GAO's statutory work shifted to the comprehensive auditing of government agencies. Later, beginning during the tenure of Comptroller General Elmer B. Staats, GAO's work expanded to include program evaluation and policy analysis. Whereas GAO's workforce consisted primarily of accounting clerks during the first three decades of its existence, today it is a multidisciplinary professional services organization with staff reflecting the diversity of

knowledge and skills needed to deliver a wide range of services to the Congress.

Although currently less than 15 percent of agency resources are devoted to traditional auditing and accounting activities, members of the public, the press, as well as the Congress often incorrectly assume that GAO is still solely a financial auditing organization. In addition, our name clearly confuses many potential applicants, who assume that GAO is only interested in hiring accountants. We believe that the new name will help attract applicants and address certain "expectation gaps" that exist outside of GAO.

## Concluding Observations

In conclusion, I believe that GAO's human capital proposal merits prompt passage by this committee and, ultimately, the Congress. We have used the narrowly tailored flexibilities the Congress provided us previously in Public Law 106-303 responsibly, prudently, and strategically to help posture GAO to ensure the accountability of the federal government for the benefit of the Congress and the American people. Although some elements of our initial straw proposal were controversial, we have made a number of changes, clarifications, and commitments to address various comments and concerns raised by GAO employees. We recognize that the pay adjustment provision of this proposal remains of concern to some of our staff. However, we believe that it is vitally important to GAO's future that we continue modernizing and updating our human capital policies and system in light of the changing environment and anticipated challenges ahead. We believe that the proposal as presented and envisioned is well reasoned and reasonable with adequate safeguards for GAO employees. Given our human capital infrastructure and our unique role in leading by example in major management areas, including human capital management, the federal government could benefit from GAO's experience with pay for performance systems. Overall, we believe that this proposal represents a logical incremental advancement in modernizing GAO's human capital policies, and with your support, we believe that it will make a big difference for the GAO of the future.

Chairwoman Jo Ann Davis, Mr. Davis, and Members of the Committee, this concludes my prepared statement. I would be pleased to respond to any questions you may have.

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## **Contacts**

For further information regarding this testimony, please contact Sallyanne Harper, Chief Mission Support Officer, on (202) 512-5800 or at [harpers@gao.gov](mailto:harpers@gao.gov) or Jesse Hoskins, Chief Human Capital Officer, on (202) 512-5553 or at [hoskinsj@gao.gov](mailto:hoskinsj@gao.gov).

Appendix I

# Analysts and Attorneys: Pay Increases under GAO's Current System and Human Capital Proposal

Types of Pay Increases <sup>a</sup>	Current Pay System <sup>b</sup> (Broad band)		Transition Period <sup>c</sup> (Guaranteed Minimum; Pay Protection from Band Conversion)		Implementation Period <sup>d</sup> (Pay Protection from Band Conversion)	
	Included	Permanent base pay	Included	Permanent base pay	Included	Permanent base pay
Annual across-the-board base pay	●	●	● (Same percentage as executive branch GS; for all satisfactory performers)	●	● (Percentage decoupled from executive branch GS; for all satisfactory performers)	●
Locality pay	●	●	● (Same percentage as executive branch GS; for all satisfactory performers)	●	● (Percentage decoupled from executive branch GS; for all satisfactory performers)	●
Performance-based pay (Merit increases)	● (Percentages determined by EC annually)	●	● (Percentages determined by EC annually; initial additional performance-based funds limited due to transition period guarantee)	●	● (Percentages determined by EC annually; actual incremental amount will vary over time)	●
Performance bonuses <sup>b-d</sup> (for individuals who are pay capped)	●	One-time	●	One-time	●	One-time
Dividends <sup>b-d</sup>	●	One-time	●	One-time	●	One-time
Incentive awards	●	One-time	●	One-time	●	One-time

● This element is applicable

N/A This element is not applicable

Source: GAO.

<sup>a</sup>The percentage allocated to each type of pay increase varies annually.

<sup>b</sup>Under our current pay system, GAO is linked to the executive branch for annual base and locality pay adjustments; however, since the implementation of broad banding, has not been linked to the executive branch for performance-based merit pay increases, performance bonuses/dividends, and other incentive award pay increases. The Executive Committee determines on an annual basis which pay categories, if any, are eligible for bonuses and dividends. For example, individuals in pay categories one and two received dividends for their FY 02 performance.

<sup>d</sup>During the transition period, GAO staff rated as performing at a satisfactory level (i.e., meeting expectations or higher) will be guaranteed, at a minimum, barring extraordinary economic



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circumstances or serious budgetary constraints, base pay and locality pay according to the same adjustment provided to executive branch employees. All such GAO staff will also be eligible for additional performance-based merit pay increases, performance bonuses (if pay capped)/dividends, and incentive awards. During the transition period, GAO will continue to raise the pay cap for its pay bands commensurate with executive branch pay cap increases absent extraordinary economic circumstances or serious budgetary constraints. The Executive Committee will determine on an annual basis which categories, if any, are eligible for bonuses and dividends.

<sup>d</sup>Under its human capital proposal, GAO proposes to decouple itself from the executive branch for base and locality pay adjustments after a 2 plus year transition period. After the transition period, GAO will fully implement a modified pay system in which absent extraordinary economic conditions or serious budgetary constraints, all GAO staff rated as performing at a satisfactory level (i.e., meeting expectations or higher) can expect to receive at a minimum an annual adjustment designed to protect purchasing power (e.g., the Consumer Price Index) and address differences in compensation ranges by localities. In addition, all such staff will continue to be eligible for performance-based merit pay increases, performance bonuses (if pay capped)/dividends, and incentive awards. Before finalizing and implementing a modified pay system, GAO will seek the advice of the managing directors and GAO's Employee Advisory Council. We will also draft revised pay regulations and publish them for review and comment by all employees.

Appendix II

# Professional Development Program (PDP) Staff: Pay Increases under GAO's Current System and Human Capital Proposal

Types of Pay Increases <sup>a</sup>	Current Pay System <sup>b</sup> (Broad band/PDP)		Transition Period <sup>c</sup> Guaranteed Minimum		Implementation Period <sup>d</sup>	
	Included	Permanent base pay	Included	Permanent base pay	Included	Permanent base pay
Annual across-the-board base pay	●	●	● (Same percentage as executive branch GS; for all satisfactory performers)	●	● (Percentage decoupled from executive branch GS; for all satisfactory performers)	●
Locality pay	●	●	● (Same percentage as executive branch GS; for all satisfactory performers)	●	● (Percentage decoupled from executive branch GS; for all satisfactory performers)	●
Performance-based pay	● (Percentages determined by EC annually)	●	● (Percentages determined by EC annually)	●	● (Percentages determined by EC annually)	●
Performance bonuses <sup>b-e</sup> (for individuals who are pay capped)	●	One-time	●	One-time	●	One-time
Dividends <sup>c-e</sup>	N/A	N/A	N/A	N/A	N/A	N/A
Incentive awards	●	One-time	●	One-time	●	One-time

● This element is applicable

N/A This element is not applicable

Source: GAO.

Note: PDP Staff who are Band IF (full performance) are covered by the merit pay system. See chart for Analysts & Attorneys.

<sup>a</sup>The percentage allocated to each type of pay increase varies annually.

<sup>b</sup>Under our current pay system, GAO is linked to the executive branch for base and locality pay. Band I staff in the PDP are eligible for periodic performance based PDP pay increases that are not available in the executive branch. PDP staff are not eligible for performance based merit increases and dividends.

<sup>d</sup>During the transition period, PDP staff rated as performing at a satisfactory level (i.e., meeting expectations or higher) will be guaranteed, at a minimum, barring extraordinary economic circumstances or serious budgetary constraints, base pay and locality pay according to the same adjustment provided to the executive branch employees. PDP staff rated as performing at the satisfactory level (i.e., meeting expectations or higher) will be eligible for performance-based PDP pay increases. During and after the transition period, PDP staff will not be eligible for dividends because PDP staff are evaluated every 6 months for performance based PDP increases. During the transition period, GAO will raise the pay cap for its Band I pay band commensurate with executive branch pay cap increases absent extraordinary economic circumstances or serious budgetary constraints. The

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Executive Committee will determine on an annual basis which pay categories, if any, are eligible for PDP bonuses.

<sup>4</sup>Under its human capital proposal, GAO proposes to decouple itself from the executive branch for base and locality pay after a 2 plus year transition period. After the transition period, GAO will fully implement a modified pay system in which absent extraordinary economic conditions or serious budgetary constraints, all PDP staff rated as performing at a satisfactory level (i.e., meeting expectations or higher) can expect to receive at a minimum, an annual adjustment designed to protect purchasing power (e.g., the Consumer Price Index) and address differences in compensation ranges by localities. In addition, PDP staff rated as performing at a satisfactory level (i.e., meeting expectations or higher) will continue to be eligible for additional performance-based compensation, including performance-based PDP pay increases and incentive awards. Before finalizing and implementing a modified pay system, GAO will seek the advice of the managing directors and GAO's Employee Advisory Council. We will also draft revised pay regulations and publish them for review and comment by all employees.

Appendix III

## Administrative Professional Support Staff (APSS): Pay Increases under GAO's Current System and Human Capital Proposal

Types of Pay Increases <sup>a</sup>	Current Pay System <sup>b</sup> (GS)		Transition Period <sup>c</sup> (Broad band) Pay Protection from Band Conversion		Implementation Period <sup>d</sup> Pay Protection from Band Conversion	
	Included	Permanent base pay	Included	Permanent base pay	Included	Permanent base pay
Annual across-the-board base pay	●	●	● (Same percentage as executive branch GS)	●	● Percentage decoupled from executive branch GS; for all satisfactory performers)	●
Locality pay	●	●	● (Same percentage as executive branch GS)	●	● Percentage decoupled from executive branch GS; for all satisfactory performers)	●
Quality step increase (QSI)	●	●	N/A	N/A	N/A	N/A
Within grade increase (WIG)	●	●	N/A	N/A	N/A	N/A
Performance-based pay (merit increases)	N/A	N/A	● (Percentages determined by EC annually)	●	● (Percentages determined by EC annually; actual incremental amount will vary over time)	●
Performance bonuses <sup>b-d</sup> (for individuals who are pay capped)	N/A	N/A	●	One-time	●	One-time
Dividends <sup>b-d</sup>	N/A	N/A	●	N/A	●	●
Incentive awards	●	One-time	●	One-time	●	One-time

● This element is applicable

N/A This element is not applicable

Source: GAO.

<sup>a</sup>The percentage allocated to each type of pay increase varies annually. This chart applies only to APSS employees who are under the General Schedule (GS) system. APSS employees who are already in broad bands should see the chart for Analysts and Attorneys.

<sup>b</sup>Under our current pay system, GAO is linked to the executive branch for annual base, locality, QSI, and WIG pay adjustments. APSS staff are eligible for performance incentive award pay increases; however, they are not eligible for performance bonuses (if pay capped) or dividends.

<sup>c</sup>During the transition period, GAO will implement broad banding for the APSS community between April – June 2004 and allow at least one full cycle of a new competency-based performance appraisal system before implementing any additional performance-based pay adjustments envisioned under HC II. Upon conversion to broad bands, GAO, as it did with its Analyst and Attorney communities, will replace QSIs and WIGs with performance pay increases that are not linked to the executive branch. Also, as it did with its Analyst and Attorney communities when they were converted to bands, GAO will provide a pay protection guarantee. Specifically, APSS staff who perform at the meets expectations level on any performance rating will earn a salary at least as high as they would have received had they remained under the General Schedule at their grade at the time of conversion. However, this

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guarantee will not apply to staff who are promoted after conversion or demoted and to new employees hired after the conversion. APSS staff will be eligible for performance-based merit increases, performance bonuses (if pay capped) /dividends, and incentive awards. During the transition period, GAO will continue to raise the pay cap for its pay bands commensurate with executive branch pay cap increases. The Executive Committee will determine on an annual basis which pay categories, if any, are eligible for bonuses and dividends.

<sup>d</sup>Under its human capital proposal, GAO proposes to decouple itself from the executive branch for base and locality pay after a two plus year transition for the broad band conversion. After the transition period, GAO will fully implement a modified pay system in which absent extraordinary economic conditions or serious budgetary constraints, all GAO staff rated as performing at a satisfactory level (i.e., meeting expectations or higher) can expect to receive at a minimum, an annual adjustment designed to protect purchasing power (e.g., the Consumer Price Index) and address differences in compensation ranges by localities. In addition, all APSS staff will continue to be eligible for performance-based merit pay increases, performance bonuses (if pay capped)/dividends, and incentive awards. Before finalizing and implementing a modified pay system, GAO will seek the advice of the managing directors and GAO's Employee Advisory Council. We will also draft revised pay regulations and publish them for review and comment by all employees. In addition, APSS staff receiving the pay protection guarantee from their conversion into pay bands will continue to be eligible for pay protection during the implementation period.

Appendix IV

## Wage Grade (WG) Staff: Pay Increases under GAO's Current System and Human Capital Proposal

Types of Pay Increases <sup>a</sup>	Current Pay System <sup>b</sup> (Wage Grade) System Same Under HC II	
	Included	Permanent
Annual across-the-board base pay	●	●
Locality pay	N/A	N/A
Quality step increase (QSI)	N/A	N/A
Within grade increase (WIG)	●	●
Incentive awards <sup>c</sup>	●	One-time

● This element is applicable

N/A This element is not applicable

Source: GAO.

Note: HC II refers to GAO's human capital proposal.

<sup>a</sup>The percentage allocated to each type of pay increase varies annually.

<sup>b</sup>Under its current wage grade pay system, GAO is linked to the executive branch for base, locality, and WIG pay increases. Wage grade employees are not eligible for QSIs and locality pay increases in GAO or anywhere in the federal government. Because its wage grade community is so small, GAO does not plan to include the wage grade community in the modified pay system under its human capital proposal.

<sup>c</sup>Wage grade staff are not eligible for bonuses and dividends.

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U.S. General Accounting Office, 441 G Street NW, Room 7149  
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