

GAO

Testimony

Before the Committee on Armed Services, U.S. Senate

---

For Release on Delivery  
Expected at 9:30 a.m., EDT  
Thursday, April 14, 2005

# HUMAN CAPITAL

## Preliminary Observations on Proposed Regulations for DOD's National Security Personnel System

Statement of Derek B. Stewart, Director  
Defense Capabilities and Management





Highlights of [GAO-05-559T](#), a testimony before the Committee on Armed Services, U.S. Senate

## Why GAO Did This Study

The Department of Defense's (DOD) new human resources management system—the National Security Personnel System (NSPS)—will have far-reaching implications for civil service reform across the federal government. The 2004 National Defense Authorization Act gave DOD significant flexibilities for managing more than 700,000 defense civilian employees. Given DOD's massive size, NSPS represents a huge undertaking for DOD. DOD's initial process to design NSPS was problematic; however, DOD adjusted its approach to a more deliberative process that involved more stakeholders. NSPS could, if designed and implemented properly, serve as a model for governmentwide transformation in human capital management. However, if not properly designed and implemented, it could severely impede progress toward a more performance- and results-based system for the federal government as a whole.

On February 14, 2005, DOD and the Office of Personnel Management (OPM) released for public comment the proposed NSPS regulations. This testimony provides GAO's preliminary observations on selected provisions of the proposed regulations.

[www.gao.gov/cgi-bin/getrpt?GAO-05-559T](http://www.gao.gov/cgi-bin/getrpt?GAO-05-559T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Derek B. Stewart at (202) 512-5559 or [stewartd@gao.gov](mailto:stewartd@gao.gov).

## HUMAN CAPITAL

# Preliminary Observations on Proposed Regulations for DOD's National Security Personnel System

## What GAO Found

Many of the principles underlying the proposed NSPS regulations are generally consistent with proven approaches to strategic human capital management. For instance, the proposed regulations provide for (1) elements of a flexible and contemporary human resources management system—such as pay bands and pay for performance; (2) DOD to rightsize its workforce when implementing reduction-in-force orders by giving greater priority to employee performance in its retention decisions; and (3) continuing collaboration with employee representatives. The 30-day public comment period on the proposed regulations ended March 16, 2005. DOD and OPM have notified the Congress that they are preparing to begin the meet and confer process with employee representatives who provided comments on the proposed regulations. The meet and confer process is critically important because there are many details of the proposed regulations that have not been defined, especially in the areas of pay and performance management, adverse actions and appeals, and labor-management relations. (It should be noted that 10 federal labor unions have filed suit alleging that DOD failed to abide by the statutory requirements to include employee representatives in the development of DOD's new labor relations system authorized as part of NSPS.)

GAO has several areas of concern: the proposed regulations do not (1) define the details of the implementation of the system, including such issues as adequate safeguards to help ensure fairness and guard against abuse; (2) require, as GAO believes they should, the use of core competencies to communicate to employees what is expected of them on the job; and (3) identify a process for the continuing involvement of employees in the planning, development, and implementation of NSPS.

Also, GAO believes that DOD (1) would benefit if it develops a comprehensive communications strategy that provides for ongoing, meaningful two-way communication that creates shared expectations among employees, employee representatives, and stakeholders and (2) should complete a plan for implementing NSPS to include an information technology plan and a training plan. Until such a plan is completed, the full extent of the resources needed to implement NSPS may not be well understood.

---

Chairman Warner and Members of the Committee:

I appreciate the opportunity to be here today to provide our preliminary observations on the Department of Defense's (DOD) proposed National Security Personnel System (NSPS) regulations, which the Secretary of Defense and the Acting Director of the Office of Personnel Management (OPM) jointly released for public comment on February 14, 2005.<sup>1</sup> The National Defense Authorization Act for Fiscal Year 2004<sup>2</sup> gave DOD significant authorities to redesign the rules, regulations, and processes that govern the way that defense civilian employees are hired, compensated, promoted, and disciplined. The proposed regulations, which according to DOD will ultimately affect more than 700,000 defense civilian employees, are especially critical because of their implications for governmentwide reform.

NSPS represents a huge undertaking for DOD, given its massive size and geographically and culturally diverse workforce. In addition, DOD's new human resources management system will have far-reaching implications for the management of the department and for civil service reform across the federal government. NSPS could, if designed and implemented properly, serve as a model for governmentwide transformation in human capital management. However, if not properly designed and implemented, NSPS could impede progress toward a more performance- and results-based system for the federal government as a whole.

We raised several issues regarding DOD's civilian workforce in a recently released report on the fiscal challenges the federal government faces in the 21st century, including whether DOD is pursuing the design and implementation of NSPS in a manner that maximizes the chance of success.<sup>3</sup> In recent testimony on DOD's business transformation efforts, we indicated that DOD is challenged in its efforts to effect fundamental business management reform, such as NSPS, and indicated that our ongoing work continues to raise questions about DOD's chances of

---

<sup>1</sup> National Security Personnel System, 70 Fed. Reg. 7552 (Feb. 14, 2005).

<sup>2</sup> Pub. L. No. 108-136 § 1101 (Nov. 24, 2003).

<sup>3</sup> GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-325SP (Washington, D.C.: February 2005).

---

success.<sup>4</sup> There is general recognition that the government needs a framework to guide the kind of large-scale human capital reform occurring at DOD and the Department of Homeland Security (DHS), a framework that Congress and the administration can implement to enhance performance, ensure accountability, and position the nation for the future. Implementing large-scale change management initiatives is a complex endeavor, and failure to address a wide variety of personnel and cultural issues, in particular, has been at the heart of unsuccessful organizational transformations. Strategic human capital management, which we continue to designate as a high-risk area governmentwide,<sup>5</sup> can help agencies marshal, manage, and maintain the workforce they need to accomplish their missions.

---

## Summary

Let me begin by summarizing three positive features and several areas of concern. The first positive feature is that the proposed regulations provide for many elements of a flexible and contemporary human resources management system—such as pay bands and pay for performance. The second positive feature is that the proposed regulations will allow DOD to rightsize its workforce when implementing reduction-in-force (RIF) orders. For example, DOD will be able to give greater priority to employee performance in RIF decisions and take more factors into consideration when defining the areas in which employees will compete for retention. The third positive feature is that DOD has pledged to engage in a continuing collaboration with employee representatives. On March 16, 2005, the 30-day public comment period on the proposed regulations ended. On March 28, 2005, DOD and OPM notified the Congress that they are about to begin the meet and confer process with employee representatives who provided comments on the proposed regulations. (It should be noted that 10 federal labor unions have filed suit alleging that DOD failed to abide by the statutory requirements to include employee representatives in the development of DOD's new labor relations system authorized as part of NSPS.)

---

<sup>4</sup> GAO, *Department of Defense: Further Actions Are Needed to Effectively Address Business Management Problems and Overcome Key Business Transformation Challenges*, [GAO-05-140T](#) (Washington, D.C.: Nov. 18, 2004).

<sup>5</sup> GAO, *High-Risk Series: An Update*, [GAO-05-207](#) (Washington, D.C.: January 2005).

---

However, in addition to the litigation referenced above, our initial work indicates several areas of concern. First, DOD has considerable work ahead to define the details of the implementation of its system, including such issues as adequate safeguards to help ensure fairness and guard against abuse. Second, in setting performance expectations, the proposed regulations would allow the use of core competencies to communicate to employees what is expected of them on the job, but the proposed regulations do not require the use of these core competencies. Requiring such use can help provide consistency and clarity in performance management. Third, the proposed regulations do not identify a process for the continuing involvement of employees in the planning, development, and implementation of NSPS.

GAO believes that DOD would benefit if it develops a comprehensive communications strategy that provides for ongoing, meaningful two-way communication that creates shared expectations among employees, employee representatives, managers, customers, and stakeholders. In addition, DOD should complete an implementation plan for NSPS, including an information technology plan and a training plan. Until DOD completes such a plan, the full extent of the resources needed to implement NSPS may not be well understood.

DOD's proposed regulations are intended to provide a broad outline of its new human resources management system. While they are not, nor were they intended to be, a detailed presentation of how the new system will be implemented, the details of the proposed regulations do matter. Although we continue to review the DOD's extensive regulations, today I will provide some preliminary observations on selected provisions of the proposed regulations.

---

## Preliminary Observations on Proposed Regulations for DOD's National Security Personnel System

DOD and OPM's proposed NSPS regulations would establish a new human resources management system within DOD that governs basic pay, staffing, classification, performance management, labor relations, adverse actions, and employee appeals. We believe that many of the basic principles underlying the proposed DOD regulations are generally consistent with proven approaches to strategic human capital management. Today, I will provide our preliminary observations on selected elements of the proposed regulations in the areas of pay and performance management, staffing and employment, workforce shaping, adverse actions and appeals, and labor-management relations.

---

---

## Pay and Performance Management

In January 2004, we released a report on pay for performance for selected OPM personnel demonstration projects that shows the variety of approaches taken in these projects to design and implement pay-for-performance systems.<sup>6</sup> Many of these personnel demonstration projects were conducted within DOD. The experiences of these demonstration projects provide insights into how some organizations in the federal government are implementing pay for performance, and thus can guide DOD as it develops and implements its own approach. These demonstration projects illustrate that understanding how to link pay to performance is very much a work in progress in the federal government and that additional work is needed to ensure that performance management systems are tools to help agencies manage on a day-to-day basis and achieve external results.

When DOD first proposed its new civilian personnel reform, we strongly supported the need to expand pay for performance in the federal government.<sup>7</sup> Establishing a clear link between individual pay and performance is essential for maximizing performance and ensuring the accountability of the federal government to the American people. As we have stated before, how pay for performance is done, when it is done, and the basis on which it is done can make all the difference in whether such efforts are successful.<sup>8</sup> DOD's proposed regulations reflect a growing understanding that the federal government needs to fundamentally rethink its current approach to pay and better link pay to individual and organizational performance. To this end, the DOD proposal takes another valuable step toward a modern performance management system as well as a market-based, results-oriented compensation system. My comments on specific provisions of pay and performance management follow.

---

<sup>6</sup> GAO, *Human Capital: Implementing Pay for Performance at Selected Personnel Demonstration Projects*, [GAO-04-83](#) (Washington, D.C.: Jan. 23, 2004).

<sup>7</sup> GAO, *Defense Transformation: Preliminary Observations on DOD's Proposed Civilian Personnel Reforms*, [GAO-03-717T](#) (Washington, D.C.: Apr. 29, 2003).

<sup>8</sup> GAO, *Human Capital: Preliminary Observations on Proposed DHS Human Capital Regulations*, [GAO-04-479T](#) (Washington, D.C.: Feb. 25, 2004).

---

## Aligning Individual Performance to Organizational Goals

Under the proposed regulations, the DOD performance management system would, among other things, align individual performance expectations with the department's overall mission and strategic goals, organizational program and policy objectives, annual performance plans, and other measures of performance. However, the proposed regulations do not detail how to achieve such an alignment, which is a vital issue that will need to be addressed as DOD's efforts in designing and implementing a new personnel system move forward. Our work on public sector performance management efforts in the United States and abroad has underscored the importance of aligning daily operations and activities with organizational results.<sup>9</sup> We have found that organizations often struggle with clearly understanding how what they do on a day-to-day basis contributes to overall organizational results, while high-performing organizations demonstrate their understanding of how the products and services they deliver contribute to results by aligning the performance expectations of top leadership with the organization's goals and then cascading those expectations to lower levels.

A performance management system is critical to successful organizational transformation. As an organization undergoing transformation, DOD can use its proposed performance management system as a vital tool for aligning the organization with desired results and creating a "line of sight" to show how team, unit, and individual performance can contribute to overall organizational results. To help federal agencies transform their culture to be more results oriented, customer focused, and collaborative in nature, we have reported on how a performance management system that defines responsibility and ensures accountability for change can be key to a successful merger and transformation.<sup>10</sup>

## Establishing Pay Bands

Under the proposed regulations, DOD would create pay bands for most of its civilian workforce that would replace the 15-grade General Schedule (GS) system now in place for most civil service employees. Specifically, DOD (in coordination with OPM) would establish broad occupational career groups by grouping occupations and positions that are similar in type of work, mission, developmental or career paths, and competencies. Within career groups, DOD would establish pay bands. The proposed

---

<sup>9</sup> GAO-04-479T.

<sup>10</sup> GAO, *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, GAO-03-669 (Washington, D.C.: July 2, 2003).

---

regulations do not provide details on the number of career groups or the number of pay bands per career group. The regulations also do not provide details on the criteria that DOD will use to promote individuals from one band to another. These important issues will need to be addressed as DOD moves forward. Pay banding and movement to broader occupational career groups can both facilitate DOD's movement to a pay-for-performance system and help DOD better define career groups, which in turn can improve the hiring process. In our prior work, we have reported that the current GS system, as defined in the Classification Act of 1949,<sup>11</sup> is a key barrier to comprehensive human capital reform and that the creation of broader occupational job clusters and pay bands would aid other agencies as they seek to modernize their personnel systems.<sup>12</sup> The standards and process of the current classification system are key problems in federal hiring efforts because they are outdated and thus not applicable to today's occupations and work.

Under the proposed regulations, DOD could not reduce employees' basic rates of pay when converting to pay bands. In addition, the proposed regulations would allow DOD to establish a "control point" within a band that limits increases in the rate of basic pay and may require certain criteria to be met for increases above the control point.<sup>13</sup> The use of control points to manage employees' progression through the bands can help to ensure that their performance coincides with their salaries and that only the highest performers move into the upper half of the pay band, thereby controlling salary costs. The OPM personnel demonstration projects at China Lake and the Naval Sea Systems Command Warfare Center's Dahlgren Division have incorporated checkpoints or "speed bumps" in their pay bands. For example, when an employee's salary at China Lake reaches the midpoint of the pay band, the employee must receive a performance rating that is equivalent to exceeding expectations before he or she can receive additional salary increases.

---

<sup>11</sup> 5 U.S.C. §§ 5101-5115.

<sup>12</sup> GAO, *Human Capital: Opportunities to Improve Executive Agencies' Hiring Processes*, GAO-03-450 (Washington, D.C.: May 30, 2003).

<sup>13</sup> Because movement through the pay band is based on performance, employees could progress through the pay band more quickly than they could receive similar increases under the GS system. One method of preventing employees from eventually migrating to the top of the pay band, and thus increasing salary costs, is to establish control points within each band.

---

Setting and Communicating  
Employee Performance  
Expectations

Under the proposed regulations, DOD's performance management system would promote individual accountability by setting performance expectations and communicating them to employees, holding employees responsible for accomplishing them, and making supervisors and managers responsible for effectively managing the performance of employees under their supervision. While supervisors are supposed to involve employees, insofar as practicable, in setting performance expectations, the final decisions regarding performance expectations are within the sole and exclusive discretion of management.

Under the proposed regulations, performance expectations may take several different forms. These include, among others, goals or objectives that set general or specific performance targets at the individual, team, or organizational level; a particular work assignment, including characteristics such as quality, quantity, accuracy, or timeliness; core competencies that an employee is expected to demonstrate on the job; or the contributions that an employee is expected to make. As DOD's human resources management system design efforts move forward, DOD will need to define, in more detail than is currently provided, how performance expectations will be set, including the degree to which DOD components, managers, and supervisors will have flexibility in setting those expectations.

The range of expectations that DOD would consider in setting individual employee performance expectations are generally consistent with those used by high-performing organizations. DOD appropriately recognizes that given the vast diversity of work done in the department, managers and employees need flexibility in crafting specific expectations. However, the experiences of high-performing organizations suggest that DOD should require the use of core competencies as a central feature of its performance management effort.<sup>14</sup> Based on our review of other agency efforts and our own experience at GAO, we have found that core competencies can help reinforce employee behaviors and actions that support the department's mission, goals, and values, and can provide a consistent message to employees about how they are expected to achieve results. By including such competencies as change management, cultural sensitivity, teamwork and collaboration, and information sharing, DOD would create a shared

---

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

---

responsibility for organizational success and help ensure accountability for the transformation process.

### Making Meaningful Distinctions in Employee Performance

High-performing organizations seek to create pay, incentive, and reward systems that clearly link employee knowledge, skills, and contributions to organizational results. These organizations make meaningful distinctions between acceptable and outstanding performance of individuals and appropriately reward those who perform at the highest level. DOD's proposed regulations state that supervisors and managers would be held accountable for making meaningful distinctions among employees based on performance and contribution, fostering and rewarding excellent performance, and addressing poor performance.

Under the proposed regulations, DOD is expected to have at least three rating levels for evaluating employee performance. We urge DOD to consider using at least four summary rating levels to allow for greater performance-rating and pay differentiation. This approach is in the spirit of the new governmentwide performance-based pay system for the Senior Executive Service (SES), which requires at least four rating levels to provide a clear and direct link between SES performance and pay as well as to make meaningful distinctions based on relative performance. Cascading this approach to other levels of employees can help DOD recognize and reward employee contributions and achieve the highest levels of individual performance.<sup>15</sup>

### Providing Adequate Safeguards to Ensure Fairness and Guard Against Abuse

Although DOD's proposed regulations provide for some safeguards to ensure fairness and guard against abuse, additional safeguards should be developed. For example, as required by the authorizing legislation, the proposed regulations indicate that DOD's performance management system must comply with merit system principles and avoid prohibited personnel practices; provide a means for employee involvement in the design and implementation of the system; and, overall, be fair, credible, and transparent. However, the proposed regulations do not offer details on how DOD would (1) promote consistency and provide general oversight of the performance management system to help ensure it is administered in a fair, credible, and transparent manner, and (2) incorporate predecisional internal safeguards that are implemented to help achieve consistency and equity, and ensure nondiscrimination and nonpoliticization of the

---

<sup>15</sup> GAO, *Human Capital: Observations on Final DHS Human Capital Regulations*, GAO-05-391T (Washington, D.C.: Mar. 2, 2005).

---

performance management process. Last month, during testimony, we stated that additional flexibility should have adequate safeguards, including a reasonable degree of transparency with regard to the results of key decisions, whether it be pay, promotions, or other types of actions, while protecting personal privacy. We also suggested that there should be both informal and formal appeal mechanisms within and outside of the organization if individuals feel that there has been abuse or a violation of the policies, procedures, or protected rights of the individual. Internal mechanisms could include independent human capital office and office of opportunity and inclusiveness reviews that provide reasonable assurances that there would be consistency and nondiscrimination. Furthermore, it is of critical importance that the external appeal process be independent, efficient, effective, and credible.

In April 2003, when commenting on DOD civilian personnel reforms, we testified that Congress should consider establishing statutory standards that an agency must have in place before it can implement a more performance-based pay program, and we developed an initial list of possible safeguards to help ensure that pay-for-performance systems in the government are fair, effective, and credible.<sup>16</sup> For example, we have noted that agencies need to ensure reasonable transparency and provide appropriate accountability mechanisms in connection with the results of the performance management process.<sup>17</sup> This can be done by publishing the overall results of performance management and individual pay decisions while protecting individual confidentiality and by reporting periodically on internal assessments and employee survey results relating to the performance management system. DOD needs to commit itself to publishing the results of performance management decisions. By publishing the results in a manner that protects individual confidentiality, DOD could provide employees with the information they need to better understand their performance and the performance management system. Several of the demonstration projects have been publishing information about performance appraisal and pay decisions, such as the average performance rating, the average pay increase, and the average award for the organization and for each individual unit, on internal Web sites for use by employees. As DOD's human resources management system design efforts move forward, DOD will need to define, in more detail than is

---

<sup>16</sup> [GAO-03-717T](#).

<sup>17</sup> [GAO-04-479T](#).

---

currently provided, how it plans to review such matters as the establishment and implementation of the performance appraisal system—and, subsequently, performance rating decisions, pay determinations, and promotion actions—before these actions are finalized, to ensure they are merit based.

---

## Staffing and Employment

The authorizing legislation allows DOD to implement additional hiring flexibilities that would allow it to (1) determine that there is a severe shortage of candidates or a critical hiring need and (2) use direct-hire procedures for these positions. Under current law, OPM, rather than the agency, determines whether there is a severe shortage of candidates or a critical hiring need. DOD's authorizing legislation permits that DOD merely document the basis for the severe shortage or critical hiring need and then notify OPM of these direct-hire determinations. Direct-hire authority allows an agency to appoint people to positions without adherence to certain competitive examination requirements (such as applying veterans' preference or numerically rating and ranking candidates based on their experience, training, and education) when there is a severe shortage of qualified candidates or a critical hiring need. In the section containing DOD's proposed hiring flexibilities, the proposed regulations state that the department will adhere to veterans' preference principles as well as comply with merit principles and the Title 5 provision dealing with prohibited personnel practices.

While we strongly endorse providing agencies with additional tools and flexibilities to attract and retain needed talent, additional analysis may be needed to ensure that any new hiring authorities are consistent with a focus on the protection of employee rights, on merit principles—and on results. Hiring flexibilities alone will not enable federal agencies to bring on board the personnel that are needed to accomplish their missions. Agencies must first conduct gap analyses of the critical skills and competencies needed in their workforces now and in the future, or they may not be able to effectively design strategies to hire, develop, and retain the best possible workforces.

---

## Workforce Shaping

The proposed regulations would allow DOD to reduce, realign, and reorganize the department's workforce through revised RIF procedures. For example, employees would be placed on a retention list in the following order: tenure group (i.e., permanent or temporary appointment), veterans' preference eligibility (disabled veterans will be given additional

---

priority), level of performance, and length of service; under current regulations, length of service is considered ahead of performance. We have previously testified, prior to the enactment of NSPS, in support of revised RIF procedures that would require much greater consideration of an employee's performance.<sup>18</sup> Although we support greater consideration of an employee's performance in RIF procedures, agencies must have modern, effective, and credible performance management systems in place to properly implement such authorities.

An agency's approach to workforce shaping should be oriented toward strategically reducing, realigning, and reorganizing the makeup of its workforce to ensure the orderly transfer of institutional knowledge and achieve mission results. DOD's proposed regulations include some changes that would allow the department to rightsize the workforce more carefully through greater precision in defining competitive areas, and by reducing the disruption associated with RIF orders as their impact ripples through an organization. For example, under the current regulations, the minimum RIF competitive area is broadly defined as an organization under separate administration in a local commuting area. Under the proposed regulations, DOD would be able to establish a minimum RIF competitive area on a more targeted basis, using one or more of the following factors: geographical location, line of business, product line, organizational unit, and funding line. The proposed regulations also provide DOD with the flexibility to develop additional competitive groupings on the basis of career group, occupational series or specialty, and pay band. At present, DOD can use competitive groups based on employees (1) in the excepted and competitive service, (2) under different excepted service appointment authorities, (3) with different work schedules,<sup>19</sup> (4) pay schedule, or (5) trainee status. These reforms could help DOD approach rightsizing more carefully; however, as I have stated, agencies first need to identify the critical skills and competencies needed in their workforce if they are to effectively implement their new human capital flexibilities.

---

<sup>18</sup> [GAO-03-717T](#); GAO, *Defense Transformation: DOD's Proposed Civilian Personnel System and Governmentwide Human Capital Reform*, [GAO-03-741T](#) (Washington, D.C.: May 1, 2003); and *Human Capital: Building on DOD's Reform Effort to Foster Governmentwide Improvements*, [GAO-03-851T](#) (Washington, D.C.: June 4, 2003).

<sup>19</sup> For example, employees who work full time, part time, seasonally, or intermittently.

---

---

## Adverse Actions and Appeals

As with DHS's final regulations,<sup>20</sup> DOD's proposed regulations are intended to streamline the rules and procedures for taking adverse actions, while ensuring that employees receive due process and fair treatment. The proposed regulations establish a single process for both performance-based and conduct-based actions, and shorten the adverse action process by removing the requirement for a performance improvement plan. In addition, the proposed regulations streamline the appeals process at the Merit Systems Protection Board (MSPB) by shortening the time for filing and processing appeals.

Similar to DHS, DOD's proposed regulations also adopt a higher standard of proof for adverse actions in DOD, requiring the department to meet a "preponderance of the evidence" standard in place of the current "substantial evidence" standard. For performance issues, while this higher standard of evidence means that DOD would face a greater burden of proof than most agencies to pursue these actions, DOD managers are not required to provide employees with performance improvement periods, as is the case for other federal employees. For conduct issues, DOD would face the same burden of proof as most agencies.

DOD's proposed regulations generally preserve the employee's basic right to appeal decisions to an independent body—the MSPB. However, in contrast to DHS's final regulations, DOD's proposed regulations permit an internal DOD review of the initial decisions issued by MSPB adjudicating officials. Under this internal review, DOD can modify or reverse an initial decision or remand the matter back to the adjudicating official for further consideration. Unlike other criteria for review of initial decisions, DOD can modify or reverse an initial MSPB adjudicating official's decision where the department determines that the decision has a direct and substantial adverse impact on the department's national security mission.<sup>21</sup> According to DOD, the department needs the authority to review initial MSPB decisions and correct such decisions as appropriate, to ensure that the MSPB interprets NSPS and the proposed regulations in a way that recognizes the critical mission of the department and to ensure that MSPB

---

<sup>20</sup> Department of Homeland Security Human Resources Management System, 70 Fed. Reg. 5272 (Feb. 1, 2005).

<sup>21</sup> Any final DOD decision under this review process may be further appealed to the full MSPB. Further, the Secretary of Defense or an employee adversely affected by a final order or decision of the full MSPB may seek judicial review.

---

gives proper deference to such interpretation. However, the proposed regulations do not offer additional details on the department's internal review process, such as how the review will be conducted and who will conduct them. An internal agency review process this important should be addressed in the regulations rather than in an implementing directive to ensure adequate transparency and employee confidence in the process.

Similar to DHS's final regulations, DOD's proposed regulations would shorten the notification period before an adverse action can become effective and provide an accelerated MSPB adjudication process. In addition, MSPB would no longer be able to modify a penalty for an adverse action that is imposed on an employee by DOD unless such penalty is so disproportionate to the basis of the action as to be "wholly without justification." In other words, MSPB has less latitude to modify agency-imposed penalties than under current practice. The DOD proposed regulations also stipulate that MSPB could no longer require that parties enter into settlement discussions, although either party may propose doing so. DOD, like DHS, expressed concerns that settlement should be a completely voluntary decision made by parties on their own initiative. However, settling cases has been an important tool in the past at MSPB, and promotion of settlement at this stage should be encouraged.

Similar to DHS's final regulations, DOD's proposed regulations would permit the Secretary of Defense to identify specific offenses for which removal is mandatory. Employees alleged to have committed these offenses may receive a written notice only after the Secretary of Defense's review and approval. These employees will have the same right to a review by an MSPB adjudicating official as is provided to other employees against whom appealable adverse actions are taken. DOD's proposed regulations only indicate that its employees will be made aware of the mandatory removal offenses. In contrast, the final DHS regulations explicitly provide for publishing a list of the mandatory removal offenses in the *Federal Register*. We believe that the process for determining and communicating which types of offenses require mandatory removal should be explicit and transparent and involve relevant congressional stakeholders, employees, and employee representatives. Moreover, we suggest that DOD exercise caution when identifying specific removable offenses and the specific punishment. When developing these proposed regulations, DOD should learn from the experience of the Internal Revenue Service's (IRS)

---

implementation of its mandatory removal provisions.<sup>22</sup> (IRS employees feared that they would be falsely accused by taxpayers and investigated, and had little confidence that they would not be disciplined for making an honest mistake.) We reported that IRS officials believed this provision had a negative impact on employee morale and effectiveness and had a “chilling” effect on IRS frontline enforcement employees, who were afraid to take certain appropriate enforcement actions.<sup>23</sup> Careful drafting of each removable offense is critical to ensure that the provision does not have unintended consequences.

DOD’s proposed regulations also would encourage the use of alternative dispute resolution and provide that this approach be subject to collective bargaining to the extent permitted by the proposed labor relations regulations. To resolve disputes in a more efficient, timely, and less adversarial manner, federal agencies have been expanding their human capital programs to include alternative dispute resolution approaches. These approaches include mediation, dispute resolution boards, and ombudsmen. Ombudsmen typically are used to provide an informal alternative to addressing conflicts. We previously reported on common approaches used in ombudsmen offices, including (1) broad responsibility and authority to address almost any workplace issue, (2) their ability to bring systemic issues to management’s attention, and (3) the manner in which they work with other agency offices in providing assistance to employees.<sup>24</sup>

---

## Labor-Management Relations

The DOD proposed regulations recognize the right of employees to organize and bargain collectively.<sup>25</sup> However, similar to DHS’s final regulations, the proposed regulations would reduce the scope of bargaining by (1) removing the requirement to bargain on matters traditionally referred to as “impact and implementation” (which include the processes used to deploy personnel, assign work, and use technology) and

---

<sup>22</sup> Section 1203 of the IRS Restructuring and Reform Act of 1998 outlines conditions for firing of IRS employees for any of 10 actions of misconduct.

<sup>23</sup> GAO, *Tax Administration: IRS and TIGTA Should Evaluate Their Processes of Employee Misconduct Under Section 1203*, [GAO-03-394](#) (Washington, D.C.: Feb. 14, 2003).

<sup>24</sup> [GAO-01-479T](#).

<sup>25</sup> Under current law, the rights of employees to bargain may be suspended for reasons of national security. See Title 5 U.S.C. §§ 7103(b) and 7112(b)(6).

---

(2) narrowing the scope of issues subject to collective bargaining. A National Security Labor Relations Board would be created that would largely replace the Federal Labor Relations Authority. The proposed board would have at least three members selected by the Secretary of Defense, with one member selected from a list developed in consultation with the Director of OPM. The proposed board would be similar to the internal Homeland Security Labor Relations Board established by the DHS final regulations, except that the Secretary of Defense would not be required to consult with the employee representatives in selecting its members. The proposed board would be responsible for resolving matters related to negotiation disputes, to include the scope of bargaining and the obligation to bargain in good faith, resolving impasses, and questions regarding national consultation rights.

Under the proposed regulations, the Secretary of Defense is authorized to appoint and remove individuals who serve on the board. Similar to DHS's final regulations establishing the Homeland Security Labor Relations Board, DOD's proposed regulations provide for board member qualification requirements, which emphasize integrity and impartiality. DOD's proposed regulations, however, do not provide an avenue for any employee representative input into the appointment of board members. DHS regulations do so by requiring that for the appointment of two board members, the Secretary of Homeland Security must consider candidates submitted by labor organizations. Employee perception concerning the independence of this board is critical to the resolution of issues raised over labor relations policies and disputes.

Our previous work on individual agencies' human capital systems has not directly addressed the scope of specific issues that should or should not be subject to collective bargaining and negotiations. At a forum we co-hosted in April 2004 exploring the concept of a governmentwide framework for human capital reform, participants generally agreed that the ability to organize, bargain collectively, and participate in labor organizations is an important principle to be retained in any framework for reform. It also was suggested at the forum that unions must be both willing and able to actively collaborate and coordinate with management if unions are to be effective representatives of their members and real participants in any human capital reform.

---

---

## DOD Faces Multiple Implementation Challenges

Once DOD issues its final regulations for its human resources management system, the department will face multiple implementation challenges that include establishing an overall communications strategy, providing adequate resources for the implementation of the new system, involving employees in designing the system, and evaluating DOD's new human resources management system after it has been implemented. For information on related human capital issues that could potentially affect the implementation of NSPS, see the "Highlights" pages from previous GAO products on DOD civilian personnel issues in appendix I.

---

## Establishing an Overall Communications Strategy

A significant challenge for DOD is to ensure an effective and ongoing two-way communications strategy, given its size, geographically and culturally diverse audiences, and different command structures across DOD organizations. We have reported that a communications strategy that creates shared expectations about, and reports related progress on, the implementation of the new system is a key practice of a change management initiative.<sup>26</sup> This communications strategy must involve a number of key players, including the Secretary of Defense, and a variety of communication means and mediums. DOD acknowledges that a comprehensive outreach and communications strategy is essential for designing and implementing its new human resources management system, but the proposed regulations do not identify a process for the continuing involvement of employees in the planning, development, and implementation of NSPS.

Because the NSPS design process and proposed regulations have received considerable attention,<sup>27</sup> we believe one of the most relevant implementation steps is for DOD to enhance two-way communication between employees, employee representatives, and management. Communication is not only about "pushing the message out," but also using two-way communication to build effective internal and external partnerships that are vital to the success of any organization. By providing

---

<sup>26</sup> [GAO-03-669](#).

<sup>27</sup> DOD's efforts to date to involve labor unions have not been without controversy. Ten federal labor unions have filed suit alleging that DOD failed to abide by the statutory requirements to include employee representatives in the development of DOD's new labor relations system authorized as part of NSPS. See *American Federation of Government Employees, AFL-CIO et al v. Rumsfeld et al*, No. 1:05cv00367 (D.D.C. filed Feb. 23, 2005).

---

employees with opportunities to communicate concerns and experiences about any change management initiative, management allows employees to feel that their input is acknowledged and important. As it makes plans for implementing NSPS, DOD should facilitate a two-way honest exchange with, and allow for feedback from, employees and other stakeholders. Once it receives this feedback, management needs to consider and use this solicited employee feedback to make any appropriate changes to its implementation. In addition, management needs to close the loop by providing employees with information on why key recommendations were not adopted.

---

### Providing Adequate Resources for Implementing the New System

Experience has shown that additional resources are necessary to ensure sufficient planning, implementation, training, and evaluation for human capital reform. According to DOD, the implementation of NSPS will result in costs for, among other things, developing and delivering training, modifying automated human resources information systems, and starting up and sustaining the National Security Labor Relations Board. We have found that, based on the data provided by selected OPM personnel demonstration projects, the major cost drivers in implementing pay-for-performance systems are the direct costs associated with salaries and training.

DOD estimates that the overall cost associated with implementing NSPS will be approximately \$158 million through fiscal year 2008. According to DOD, it has not completed an implementation plan for NSPS, including an information technology plan and a training plan; thus, the full extent of the resources needed to implement NSPS may not be well understood at this time. According to OPM, the increased costs of implementing alternative personnel systems should be acknowledged and budgeted up front.<sup>28</sup> Certain costs, such as those for initial training on the new system, are one-time in nature and should not be built into the base of DOD's budget. Other costs, such as employees' salaries, are recurring and thus would be built into the base of DOD's budget for future years. Therefore, funding for NSPS will warrant close scrutiny by Congress as DOD's implementation plan evolves.

---

<sup>28</sup> OPM, *Demonstration Projects and Alternative Personnel Systems: HR Flexibilities and Lessons Learned* (Washington, D.C.: September 2001).

---

---

## Involving Employees and Other Stakeholders in Implementing the System

The proposed regulations do not identify a process for the continuing involvement of employees in the planning, development, and implementation of NSPS. However, DOD's proposed regulations do provide for continuing collaboration with employee representatives. According to DOD, almost two-thirds of its 700,000 civilian employees are represented by 41 different labor unions, including over 1,500 separate bargaining units. In contrast, according to OPM, just under one-third of DHS's 110,000 federal employees are represented by 16 different labor unions, including 75 separate bargaining units. Similar to DHS's final regulations, DOD's proposed regulations about the collaboration process, among other things, would permit the Secretary of Defense to determine (1) the number of employee representatives allowed to engage in the collaboration process, and (2) the extent to which employee representatives are given an opportunity to discuss their views with and submit written comments to DOD officials. In addition, DOD's proposed regulations indicate that nothing in the continuing collaboration process will affect the right of the Secretary of Defense to determine the content of implementing guidance and to make this guidance effective at any time. DOD's proposed regulations also will give designated employee representatives an opportunity to be briefed and to comment on the design and results of the new system's implementation. DHS's final regulations, however, provide for more extensive involvement of employee representatives. For example, DHS's final regulations provide for the involvement of employee representatives in identifying the scope, objectives, and methodology to be used in evaluating the new DHS system.

The active involvement of employees and employee representatives will be critical to the success of NSPS. We have reported that the involvement of employees and employee representatives both directly and indirectly is crucial to the success of new initiatives, including implementing a pay-for-performance system. High-performing organizations have found that actively involving employees and stakeholders, such as unions or other employee associations, when developing results-oriented performance management systems helps improve employees' confidence and belief in the fairness of the system and increases their understanding and ownership of organizational goals and objectives. This involvement must be early, active, and continuing if employees are to gain a sense of understanding and ownership of the changes that are being made. The 30-day public comment period on the proposed regulations ended March 16, 2005. DOD and OPM notified the Congress that they are preparing to begin the meet and confer process with employee representatives who provided comments on the proposed regulations. Last month, during testimony, we

---

stated that DOD is at the beginning of a long road, and the meet and confer process has to be meaningful and is critically important because there are many details of the proposed regulations that have not been defined. These details do matter, and how they are defined can have a direct bearing on whether or not the ultimate new human resources management system is both reasoned and reasonable.

---

## Evaluating DOD's New Human Resources Management System

Evaluating the impact of NSPS will be an ongoing challenge for DOD. This is especially important because DOD's proposed regulations would give managers more authority and responsibility for managing the new human resources management system. High-performing organizations continually review and revise their human capital management systems based on data-driven lessons learned and changing needs in the work environment. Collecting and analyzing data will be the fundamental building block for measuring the effectiveness of these approaches in support of the mission and goals of the department.

DOD's proposed regulations indicate that DOD will establish procedures for evaluating the regulations and their implementation. We believe that DOD should consider conducting evaluations that are broadly modeled on the evaluation requirements of the OPM demonstration projects. Under the demonstration project authority, agencies must evaluate and periodically report on results, implementation of the demonstration project, cost and benefits, impacts on veterans and other equal employment opportunity groups, adherence to merit system principles, and the extent to which the lessons from the project can be applied governmentwide. A set of balanced measures addressing a range of results, and customer, employee, and external partner issues may also prove beneficial. An evaluation such as this would facilitate congressional oversight; allow for any midcourse corrections; assist DOD in benchmarking its progress with other efforts; and provide for documenting best practices and sharing lessons learned with employees, stakeholders, other federal agencies, and the public.

We have work under way to assess DOD's efforts to design its new human resources management system, including further details on some of the significant challenges, and we expect to issue a report on the results of our work sometime this summer.

---

---

## Concluding Observations

As we testified previously on the DOD and DHS civilian personnel reforms, an agency should have to demonstrate that it has a modern, effective, credible, and, as appropriate, validated performance management system in place with adequate safeguards, including reasonable transparency and appropriate accountability mechanisms, to ensure fairness and prevent politicization of the system and abuse of employees before any related flexibilities are operationalized. DOD's proposed NSPS regulations take a valuable step toward a modern performance management system as well as a more market-based, results-oriented compensation system. DOD's proposed performance management system is intended to align individual performance and pay with the department's critical mission requirements; hold employees responsible for accomplishing performance expectations; and provide meaningful distinctions in performance. However, the experiences of high-performing organizations suggest that DOD should require core competencies in its performance management system. The core competencies can serve to reinforce employee behaviors and actions that support the DOD mission, goals, and values and to set expectations for individuals' roles in DOD's transformation, creating a shared responsibility for organizational success and ensuring accountability for change.

DOD's overall effort to design and implement a strategic human resources management system—along with the similar effort of DHS—can be particularly instructive for future human capital management, reorganization, and transformation efforts in other federal agencies.

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

---

---

## Contacts and Acknowledgments

For further information, please contact Derek B. Stewart, Director, Defense Capabilities and Management, at (202) 512-5559 or [stewartd@gao.gov](mailto:stewartd@gao.gov). For further information on governmentwide human capital issues, please contact Eileen R. Larence, Director, Strategic Issues, at (202) 512-6512 or [larencee@gao.gov](mailto:larencee@gao.gov). Major contributors to this testimony include Sandra F. Bell, Renee S. Brown, K. Scott Derrick, William J. Doherty, Clifton G. Douglas, Jr., Barbara L. Joyce, Julia C. Matta, Mark A. Pross, William J. Rigazio, John S. Townes, and Susan K. Woodward.

# “Highlights” from Selected GAO Human Capital Reports



Highlights of GAO-04-753, a report to the Ranking Minority Member, Subcommittee on Readiness, Committee on Armed Services, House of Representatives

### Why GAO Did This Study

During its downsizing in the early 1990s, the Department of Defense (DOD) did not focus on strategically reshaping its civilian workforce. GAO was asked to address DOD's efforts to strategically plan for its future civilian workforce at the Office of the Secretary of Defense (OSD), the military services' headquarters, and the Defense Logistics Agency (DLA). Specifically, GAO determined: (1) the extent to which civilian strategic workforce plans have been developed and implemented to address future civilian workforce requirements, and (2) the major challenges affecting the development and implementation of these plans.

### What GAO Recommends

GAO recommends that DOD and the components include certain key elements in their civilian strategic workforce plans to guide their human capital efforts. DOD concurred with one of our recommendations, and partially concurred with two others because it believes that the department has undertaken analyses of critical skills gaps and are using strategies and personnel flexibilities to fill identified skills gaps. We cannot verify DOD's statement because DOD was unable to provide the gap analyses. In addition, we found that the strategies being used by the department have not been derived from analyses of gaps between the current and future critical skills and competencies needed by the workforce.

[www.gao.gov/cgi-bin/getrpt?-GAO-04-753](http://www.gao.gov/cgi-bin/getrpt?-GAO-04-753).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Derek Stewart at (202) 512-5559 or [stewartd@gao.gov](mailto:stewartd@gao.gov).

June 2004

## DOD CIVILIAN PERSONNEL

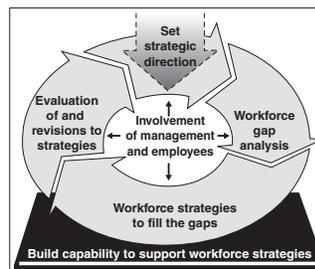
### Comprehensive Strategic Workforce Plans Needed

#### What GAO Found

OSD, the service headquarters, and DLA have recently taken steps to develop and implement civilian strategic workforce plans to address future civilian workforce needs, but these plans generally lack some key elements essential to successful workforce planning. As a result, OSD, the military services' headquarters, and DLA—herein referred to as DOD and the components—do not have comprehensive strategic workforce plans to guide their human capital efforts. None of the plans included analyses of the gaps between critical skills and competencies (a set of behaviors that are critical to work accomplishment) currently needed by the workforce and those that will be needed in the future. Without including gap analyses, DOD and the components may not be able to effectively design strategies to hire, develop, and retain the best possible workforce. Furthermore, none of the plans contained results-oriented performance measures that could provide the data necessary to assess the outcomes of civilian human capital initiatives.

The major challenge that DOD and most of the components face in their efforts to develop and implement strategic workforce plans is their need for information on current competencies and those that will likely be needed in the future. This problem results from DOD's and the components' not having developed tools to collect and/or store, and manage data on workforce competencies. Without this information, it not clear whether they are designing and funding workforce strategies that will effectively shape their civilian workforces with the appropriate competencies needed to accomplish future DOD missions. Senior department and component officials all acknowledged this shortfall and told us that they are taking steps to address this challenge. Though these are steps in the right direction, the lack of information on current competencies and future needs is a continuing problem that several organizations, including GAO, have previously identified.

Strategic Workforce Planning Process



Source: GAO.

United States General Accounting Office

Appendix I  
“Highlights” from Selected GAO Human  
Capital Reports



Highlights of GAO-03-851T,  
testimony before the Committee on  
Governmental Affairs, United States  
Senate

#### Why GAO Did This Study

People are at the heart of an organization's ability to perform its mission. Yet a key challenge for the Department of Defense (DOD), as for many federal agencies, is to strategically manage its human capital. DOD's proposed National Security Personnel System would provide for wide-ranging changes in DOD's civilian personnel pay and performance management and other human capital areas. Given the massive size of DOD, the proposal has important precedent-setting implications for federal human capital management.

This testimony provides GAO's observations on DOD human capital reform proposals and the need for governmentwide reform.

[www.gao.gov/cgi-bin/getrpt?GAO-03-851T](http://www.gao.gov/cgi-bin/getrpt?GAO-03-851T).

To view the full testimony, click on the link above. For more information, contact Derek Stewart at (202) 512-5559 or [stewartd@gao.gov](mailto:stewartd@gao.gov).

June 4, 2003

## HUMAN CAPITAL

### Building on DOD's Reform Effort to Foster Governmentwide Improvements

#### What GAO Found

GAO strongly supports the need for government transformation and the concept of modernizing federal human capital policies both within DOD and for the federal government at large. The federal personnel system is clearly broken in critical respects—designed for a time and workforce of an earlier era and not able to meet the needs and challenges of today's rapidly changing and knowledge-based environment. The human capital authorities being considered for DOD have far-reaching implications for the way DOD is managed as well as significant precedent-setting implications for the rest of the federal government. GAO is pleased that as the Congress has reviewed DOD's legislative proposal it has added a number of important safeguards, including many along the lines GAO has been suggesting, that will help DOD maximize its chances of success in addressing its human capital challenges and minimize the risk of failure.

More generally, GAO believes that agency-specific human capital reforms should be enacted to the extent that the problems being addressed and the solutions offered are specific to a particular agency (e.g., military personnel reforms for DOD). Several of the proposed DOD reforms meet this test. In GAO's view, the relevant sections of the House's version of the National Defense Authorization Act for Fiscal Year 2004 and the proposal that is being considered as part of this hearing contain a number of important improvements over the initial DOD legislative proposal.

Moving forward, GAO believes it would be preferable to employ a governmentwide approach to address human capital issues and the need for certain flexibilities that have broad-based application and serious potential implications for the civil service system, in general, and the Office of Personnel Management, in particular. GAO believes that several of the reforms that DOD is proposing fall into this category (e.g., broad banding, pay for performance, re-employment and pension offset waivers). In these situations, GAO believes it would be both prudent and preferable for the Congress to provide such authorities governmentwide and ensure that appropriate performance management systems and safeguards are in place before the new authorities are implemented by the respective agency. Importantly, employing this approach is not intended to delay action on DOD's or any other individual agency's efforts, but rather to accelerate needed human capital reform throughout the federal government in a manner that ensures reasonable consistency on key principles within the overall civilian workforce. This approach also would help to maintain a level playing field among federal agencies in competing for talent and would help avoid further fragmentation within the civil service.

United States General Accounting Office

Appendix I  
“Highlights” from Selected GAO Human  
Capital Reports



Highlights of GAO-03-493T, a testimony before the Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia, Senate Committee on Governmental Affairs

### Why GAO Did This Study

People are at the heart of an organization's ability to perform its mission. Yet, a key challenge for the Department of Defense (DOD), as for many federal agencies, is to strategically manage its human capital. With about 700,000 civilian employees on its payroll, DOD is the second largest federal employer of civilians in the nation. Although downsized 38 percent between fiscal years 1989 and 2002, this workforce has taken on greater roles as a result of DOD's restructuring and transformation. DOD's proposed National Security Personnel System (NSPS) would provide for wide-ranging changes in DOD's civilian personnel pay and performance management, collective bargaining, rightsizing, and other human capital areas. The NSPS would enable DOD to develop and implement a consistent DOD-wide civilian personnel system. Given the massive size of DOD, the proposal has important precedent-setting implications for federal human capital management and OPM.

This testimony provides GAO's preliminary observations on aspects of DOD's proposal to make changes to its civilian personnel system and discusses the implications of such changes for governmentwide human capital reform. Past reports have contained GAO's views on what remains to be done to bring about lasting solutions for DOD to strategically manage its human capital. DOD has not always concurred with our recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-03-493T](http://www.gao.gov/cgi-bin/getrpt?GAO-03-493T). To view the full testimony, including the scope and methodology, click on the link above. For more information, contact Derek B. Stewart at (202) 512-5140 or [Stewartd@gao.gov](mailto:Stewartd@gao.gov).

May 2003

## HUMAN CAPITAL

### DOD'S CIVILIAN PERSONNEL STRATEGIC MANAGEMENT AND THE PROPOSED NATIONAL SECURITY PERSONNEL SYSTEM

#### What GAO Found

DOD's lack of attention to force shaping during its downsizing in the early 1990s has resulted in a workforce that is not balanced by age or experience and that puts at risk the orderly transfer of institutional knowledge. Human capital challenges are severe in certain areas. For example, DOD has downsized its acquisition workforce by almost half. More than 50 percent of the workforce will be eligible to retire by 2005. In addition, DOD faces major succession planning challenges at various levels within the department. Also, since 1987, the industrial workforce, such as depot maintenance, has been reduced by about 56 percent, with many of the remaining employees nearing retirement, calling into question the longer-term viability of the workforce. DOD is one of the agencies that has begun to address human capital challenges through strategic human capital planning. For example, in April 2002, DOD published a department wide strategic plan for civilians. Although a positive step toward fostering a more strategic approach toward human capital management, the plan is not fully aligned with the overall mission of the department or results oriented. In addition, it was not integrated with the military and contractor personnel planning.

We strongly support the concept of modernizing federal human capital policies within DOD and the federal government at large. Providing reasonable flexibility to management in this critical area is appropriate provided adequate safeguards are in place to prevent abuse. We believe that Congress should consider both governmentwide and selected agency, including DOD, changes to address the pressing human capital issues confronting the federal government. In this regard, many of the basic principles underlying DOD's civilian human capital proposals have merit and deserve serious consideration. At the same time, many are not unique to DOD and deserve broader consideration.

Agency-specific human capital reforms should be enacted to the extent that the problems being addressed and the solutions offered are specific to a particular agency (e.g., military personnel reforms for DOD). Several of the proposed DOD reforms meet this test. At the same time, we believe that Congress should consider incorporating additional safeguards in connection with several of DOD's proposed reforms. In our view, it would be preferable to employ a government-wide approach to address certain flexibilities that have broad-based application and serious potential implications for the civil service system, in general, and the Office of Personnel Management (OPM), in particular. We believe that several of the reforms that DOD is proposing fall into this category (e.g., broad-banding, pay for performance, re-employment and pension offset waivers). In these situations, it may be prudent and preferable for the Congress to provide such authorities on a governmentwide basis and in a manner that assures that appropriate performance management systems and safeguards are in place before the new authorities are implemented by the respective agency.

However, in all cases whether from a governmentwide authority or agency specific legislation, in our view, such additional authorities should be implemented (or operationalized) only when an agency has the institutional infrastructure in place to make effective use of the new authorities. Based on our experience, while the DOD leadership has the intent and the ability to implement the needed infrastructure, it is not consistently in place within the vast majority of DOD at the present time. United States General Accounting Office

Appendix I  
“Highlights” from Selected GAO Human  
Capital Reports



Highlights of GAO-03-741T, testimony  
before the Committee on Armed Services,  
House of Representatives

### Why GAO Did This Study

DOD is in the midst of a major transformation effort including a number of initiatives to transform its forces and improve its business operations. DOD's legislative initiative would provide for major changes in civilian and military human capital management, make major adjustments in the DOD acquisition process, affect DOD's organization structure, and change DOD's reporting requirements to Congress, among other things.

DOD's proposed National Security Personnel System (NSPS) would provide for wide-ranging changes in DOD's civilian personnel pay and performance management, collective bargaining, rightsizing, and a variety of other human capital areas. The NSPS would enable DOD to develop and implement a consistent DOD-wide civilian personnel system.

This testimony provides GAO's preliminary observations on aspects of DOD's legislative proposal to make changes to its civilian personnel system and discusses the implications of such changes for governmentwide human capital reform. This testimony summarizes many of the issues discussed in detail before the Subcommittee on Civil Service and Agency Organization, Committee on Government Reform, House of Representatives on April 29, 2003.

[www.gao.gov/cgi-bin/getrpt?GAO-03-741T](http://www.gao.gov/cgi-bin/getrpt?GAO-03-741T).

To view the full testimony, click on the link above. For more information, contact Derek Stewart at (202) 512-5559 or [stewardd@gao.gov](mailto:stewardd@gao.gov).

May 1, 2003

## DEFENSE TRANSFORMATION

### DOD's Proposed Civilian Personnel System and Governmentwide Human Capital Reform

#### What GAO Found

Many of the basic principles underlying DOD's civilian human capital proposal have merit and deserve serious consideration. The federal personnel system is clearly broken in critical respects—designed for a time and workforce of an earlier era and not able to meet the needs and challenges of our current rapidly changing and knowledge-based environment. DOD's proposal recognizes that, as GAO has stated and the experiences of leading public sector organizations here and abroad have found, strategic human capital management must be the centerpiece of any serious government transformation effort.

More generally, from a conceptual standpoint, GAO strongly supports the need to expand broad banding and pay for performance-based systems in the federal government. However, moving too quickly or prematurely at DOD or elsewhere, can significantly raise the risk of doing it wrong. This could also serve to severely set back the legitimate need to move to a more performance- and results-based system for the federal government as a whole. Thus, while it is imperative that we take steps to better link employee pay and other personnel decisions to performance across the federal government, how it is done, when it is done, and the basis on which it is done, can make all the difference in whether or not we are successful. One key need is to modernize performance management systems in executive agencies so that they are capable of supporting more performance-based pay and other personnel decisions. Unfortunately, based on GAO's past work, most existing federal performance appraisal systems, including a vast majority of DOD's systems, are not currently designed to support a meaningful performance-based pay system.

The critical questions to consider are: should DOD and/or other agencies be granted broad-based exemptions from existing law, and if so, on what basis? Do DOD and other agencies have the institutional infrastructure in place to make effective use of any new authorities? This institutional infrastructure includes, at a minimum, a human capital planning process that integrates the agency's human capital policies, strategies, and programs with its program goals and mission, and desired outcomes; the capabilities to effectively develop and implement a new human capital system; and, importantly, a set of adequate safeguards, including reasonable transparency and appropriate accountability mechanisms to ensure the fair, effective, and credible implementation of a new system.

In GAO's view, as an alternative to DOD's proposed approach, Congress should consider providing governmentwide broad banding and pay for performance authorities that DOD and other federal agencies can use provided they can demonstrate that they have a performance management system in place that meets certain statutory standards, that can be certified to by a qualified and independent party, such as OPM, within prescribed timeframes. Congress should also consider establishing a governmentwide fund whereby agencies, based on a sound business case, could apply for funding to modernize their performance management systems and ensure that those systems have adequate safeguards to prevent abuse. This approach would serve as a positive step to promote high-performing organizations throughout the federal government while avoiding further human capital policy fragmentation.

United States General Accounting Office

**Appendix I**  
**“Highlights” from Selected GAO Human**  
**Capital Reports**



Highlights of GAO-03-472, a report to the Subcommittee on Readiness, Committee on Armed Services, House of Representatives

April 2003

**DOD CIVILIAN PERSONNEL**

**Improved Strategic Planning Needed to Help Ensure Viability of DOD’s Civilian Industrial Workforce**

**Why GAO Did This Study**

Between 1987 and 2002, the Department of Defense (DOD) downsized the civilian workforce in 27 key industrial facilities by about 56 percent. Many of the remaining 72,000 workers are nearing retirement. In recent years GAO has identified shortcomings in DOD’s strategic planning and was asked to determine (1) whether DOD has implemented our prior recommendation to develop and implement a depot maintenance strategic plan, (2) the extent to which the services have developed and implemented comprehensive strategic workforce plans, and (3) what challenges adversely affect DOD’s workforce planning.

**What GAO Recommends**

GAO recommends that the DOD complete revisions to core policy, promulgate a schedule for completing core computations, and complete depot strategic planning; develop a plan for arsenals and ammunition plants; develop strategic workforce plans; and coordinate the implementation of initiatives to address various workforce challenges. DOD concurred with 7 of our 9 recommendations; nonconcurring with two because it believes the proposed National Security Personnel System, which was submitted to Congress as a part of the DOD transformation legislation, will take care of these problems. We believe it is premature to assume this system will (1) be approved by Congress as proposed and (2) resolve these issues.

[www.gao.gov/cgi-bin/getrpt?GAO-03-472](http://www.gao.gov/cgi-bin/getrpt?GAO-03-472).

To view the full report, including the scope and methodology, click on the link above. For more information, contact Derek Stewart at (202) 512-5559 or [stewartd@gao.gov](mailto:stewartd@gao.gov).

**What GAO Found**

DOD has not implemented our October 2001 recommendation to develop and implement a DOD depot strategic plan that would delineate workloads to be accomplished in each of the services’ depots. The DOD depot system has been a key part of the department’s plan to support military systems in the past, but the increased use of the private sector to perform this work has decreased the role of these activities. While title 10 of the U.S. code requires DOD to retain core capability and also requires that at least 50 percent of depot maintenance funds be spent for public-sector performance, questions remain about the future role of DOD depots. Absent a DOD depot strategic plan, the services have in varying degrees, laid out a framework for strategic depot planning, but this planning is not comprehensive. Questions also remain about the future of arsenals and ammunition plants. GAO reviewed workforce planning efforts for 22 maintenance depots, 3 arsenals, and 2 ammunition plants, which employed about 72,000 civilian workers in fiscal year 2002.

The services have not developed and implemented strategic workforce plans to position the civilian workforce in DOD industrial activities to meet future requirements. While workforce planning is done for each of the industrial activities, generally it is short-term rather than strategic. Further, workforce planning is lacking in other areas that OPM guidance and high-performing organizations identify as key to successful workforce planning. Service workforce planning efforts (1) usually do not assess the competencies; (2) do not develop comprehensive retention plans; and (3) sometimes do not develop performance measures and evaluate workforce plans.

Several challenges adversely affect DOD’s workforce planning for the viability of its civilian depot workforce. First, given the aging depot workforce and the retirement eligibility of over 40 percent of the workforce over the next 5 to 7 years, the services may have difficulty maintaining the depots’ viability. Second, the services are having difficulty implementing multiskilling—an industry and government best practice for improving the flexibility and productivity of the workforce—even though this technique could help depot planners do more with fewer employees. Finally, increased training funding and innovation in the training program will be essential for revitalizing the aging depot workforce.

Service	FY 2002 civilian	Average age	Percent eligible	
	staffing levels		to retire by 2007	to retire by 2009
Navy	35,563	46	28	39
Army	14,234	49	41	52
Marine Corps	1,323	48	45	60
Air Force	21,152	47	35	44
Total	72,272	47	33	43

Source: DOD (data), GAO (presentation).

United States General Accounting Office

Appendix I  
“Highlights” from Selected GAO Human  
Capital Reports



## Highlights

Highlights of GAO-03-717T, testimony before the Subcommittee on Civil Service and Agency Organization, Committee on Government Reform, House of Representatives

### Why GAO Did This Study

DOD is in the midst of a major transformation effort including a number of initiatives to transform its forces and improve its business operations. DOD’s legislative initiative would provide for major changes in the civilian and military human capital management, make major adjustments in the DOD acquisition process, affect DOD’s organization structure, and change DOD’s reporting requirements to Congress, among other things.

DOD’s proposed National Security Personnel System (NSPS) would provide for wide-ranging changes in DOD’s civilian personnel pay and performance management, collective bargaining, rightsizing, and a variety of other human capital areas. The NSPS would enable DOD to develop and implement a consistent DOD-wide civilian personnel system.

This testimony provides GAO’s preliminary observations on aspects of DOD’s legislative proposal to make changes to its civilian personnel system and poses critical questions that need to be considered.

[www.gao.gov/cgi-bin/getrpt?GAO-03-717T](http://www.gao.gov/cgi-bin/getrpt?GAO-03-717T)

To view the full report, including the scope and methodology, click on the link above. For more information, contact Derek Stewart at (202) 512-5559 or [stewartd@gao.gov](mailto:stewartd@gao.gov).

April 29, 2003

## DEFENSE TRANSFORMATION

### Preliminary Observations on DOD’s Proposed Civilian Personnel Reforms

#### What GAO Found

Many of the basic principles underlying DOD’s civilian human capital proposals have merit and deserve serious consideration. The federal personnel system is clearly broken in critical respects—designed for a time and workforce of an earlier era and not able to meet the needs and challenges of our current rapidly changing and knowledge-based environment. DOD’s proposal recognizes that, as GAO has stated and the experiences of leading public sector organizations here and abroad have found strategic human capital management must be the centerpiece of any serious government transformation effort.

More generally, from a conceptual standpoint, GAO strongly supports the need to expand broad banding and pay for performance-based systems in the federal government. However, moving too quickly or prematurely at DOD or elsewhere, can significantly raise the risk of doing it wrong. This could also serve to severely set back the legitimate need to move to a more performance and results-based system for the federal government as a whole. Thus, while it is imperative that we take steps to better link employee pay and other personnel decisions to performance across the federal government, how it is done, when it is done, and the basis on which it is done, can make all the difference in whether or not we are successful. In our view, one key need is to modernize performance management systems in executive agencies so that they are capable of supporting more performance-based pay and other personnel decisions. Unfortunately, based on GAO’s past work, most existing federal performance appraisal systems, including a vast majority of DOD’s systems, are not currently designed to support a meaningful performance-based pay system.

The critical questions to consider are: should DOD and/or other agencies be granted broad-based exemptions from existing law, and if so, on what basis; and whether they have the institutional infrastructure in place to make effective use of the new authorities. This institutional infrastructure includes, at a minimum, a human capital planning process that integrates the agency’s human capital policies, strategies, and programs with its program goals and mission, and desired outcomes; the capabilities to effectively develop and implement a new human capital system; and, importantly, a set of adequate safeguards, including reasonable transparency and appropriate accountability mechanisms to ensure the fair, effective, and credible implementation of a new system.

In our view, Congress should consider providing governmentwide broad banding and pay for performance authorities that DOD and other federal agencies can use provided they can demonstrate that they have a performance management system in place that meets certain statutory standards, which can be certified to by a qualified and independent party, such as OPM, within prescribed timeframes. Congress should also consider establishing a governmentwide fund whereby agencies, based on a sound business case, could apply for funding to modernize their performance management systems and ensure that those systems have adequate safeguards to prevent abuse. This approach would serve as a positive step to promote high-performing organizations throughout the federal government while avoiding fragmentation within the executive branch in the critical human capital area.

United States General Accounting Office

Appendix I  
“Highlights” from Selected GAO Human  
Capital Reports



Highlights of GAO-03-475, a report to the Ranking Minority Member, Subcommittee on Readiness, House Committee on Armed Services

#### Why GAO Did This Study

The Department of Defense’s (DOD) civilian employees play key roles in such areas as defense policy, intelligence, finance, acquisitions, and weapon systems maintenance. Although downsized 38 percent between fiscal years 1989 and 2002, this workforce has taken on greater roles as a result of DOD’s restructuring and transformation. Responding to congressional concerns about the quality and quantity of, and the strategic planning for the civilian workforce, GAO determined the following for DOD, the military services, and selected defense agencies: (1) the extent of top-level leadership involvement in civilian strategic planning; (2) whether elements in civilian strategic plans are aligned to the overall mission, focused on results, and based on current and future civilian workforce data; and (3) whether civilian and military personnel strategic plans or sourcing initiatives were integrated.

#### What GAO Recommends

GAO recommends DOD improve the departmentwide plan to be mission aligned and results-oriented; provide guidance to align component- and department-level human capital strategic plans; develop data on future civilian workforce needs; and set milestones for integrating military and civilian workforce plans, taking contractors into consideration. DOD comments were too late to include in this report but are included in GAO-03-690R.

[www.gao.gov/cgi-bin/getrpt?GAO-03-475](http://www.gao.gov/cgi-bin/getrpt?GAO-03-475).

To view the full report, including the scope and methodology, click on the link above. For more information, contact Derek B. Stewart at (202) 512-5559 or [stewartd@gao.gov](mailto:stewartd@gao.gov).

March 2003

## DOD PERSONNEL

### DOD Actions Needed to Strengthen Civilian Human Capital Strategic Planning and Integration with Military Personnel and Sourcing Decisions

#### What GAO Found

Generally, civilian personnel issues appear to be an emerging priority among top leaders in DOD and the defense components. Although DOD began downsizing its civilian workforce more than a decade ago, it did not take action to strategically address challenges affecting the civilian workforce until it issued its civilian human capital strategic plan in April 2002. Top-level leaders in the Air Force, the Marine Corps, the Defense Contract Management Agency, and the Defense Finance Accounting Service have initiated planning efforts and are working in partnership with their civilian human capital professionals to develop and implement civilian strategic plans; such leadership, however, was increasing in the Army and not as evident in the Navy. Also, DOD has not provided guidance on how to integrate the components’ plans with the department-level plan. High-level leadership is critical to directing reforms and obtaining resources for successful implementation.

The human capital strategic plans GAO reviewed for the most part lacked key elements found in fully developed plans. Most of the civilian human capital goals, objectives, and initiatives were not explicitly aligned with the overarching missions of the organizations. Consequently, DOD and the components cannot be sure that strategic goals are properly focused on mission achievement. Also, none of the plans contained results-oriented performance measures to assess the impact of their civilian human capital initiatives (i.e., programs, policies, and processes). Thus, DOD and the components cannot gauge the extent to which their human capital initiatives contribute to achieving their organizations’ mission. Finally, the plans did not contain data on the skills and competencies needed to successfully accomplish future missions; therefore, DOD and the components risk not being able to put the right people, in the right place, and at the right time, which can result in diminished accomplishment of the overall defense mission.

Moreover, the civilian strategic plans did not address how the civilian workforce will be integrated with their military counterparts or sourcing initiatives. DOD’s three human capital strategic plans—two military and one civilian—were prepared separately and were not integrated to form a seamless and comprehensive strategy and did not address how DOD plans to link its human capital initiatives with its sourcing plans, such as efforts to outsource non-core responsibilities. The components’ civilian plans acknowledge a need to integrate planning for civilian and military personnel—taking into consideration contractors—but have not yet done so. Without an integrated strategy, DOD may not effectively and efficiently allocate its scarce resources for optimal readiness.

United States General Accounting Office

---

---

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

---

## GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

---

## Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site ([www.gao.gov](http://www.gao.gov)). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to [www.gao.gov](http://www.gao.gov) and select "Subscribe to Updates."

---

## Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office  
441 G Street NW, Room LM  
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000  
TDD: (202) 512-2537  
Fax: (202) 512-6061

---

## To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: [www.gao.gov/fraudnet/fraudnet.htm](http://www.gao.gov/fraudnet/fraudnet.htm)

E-mail: [fraudnet@gao.gov](mailto:fraudnet@gao.gov)

Automated answering system: (800) 424-5454 or (202) 512-7470

---

## Congressional Relations

Gloria Jarmon, Managing Director, [JarmonG@gao.gov](mailto:JarmonG@gao.gov) (202) 512-4400  
U.S. Government Accountability Office, 441 G Street NW, Room 7125  
Washington, D.C. 20548

---

## Public Affairs

Paul Anderson, Managing Director, [AndersonP1@gao.gov](mailto:AndersonP1@gao.gov) (202) 512-4800  
U.S. Government Accountability Office, 441 G Street NW, Room 7149  
Washington, D.C. 20548