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THE HUMAN CAPITAL CHALLENGE: OFFERING SOLUTIONS AND DELIVERING RESULTS

JOINT HEARING

BEFORE THE

OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL WORKFORCE AND THE DISTRICT OF COLUMBIA SUBCOMMITTEE

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

AND THE

SUBCOMMITTEE ON CIVIL SERVICE AND AGENCY ORGANIZATION

OF THE

COMMITTEE ON GOVERNMENT REFORM HOUSE OF REPRESENTATIVES

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THE HUMAN CAPITAL CHALLENGE: OFFERING SOLUTIONS AND DELIVERING RESULTS

TUESDAY, APRIL 8, 2003

U.S. SENATE,
OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL WORKFORCE AND THE DISTRICT OF COLUMBIA SUBCOMMITTEE, OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS, JOINT WITH THE COMMITTEE ON CIVIL SERVICE AND AGENCY ORGANIZATION, COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The Committees met, pursuant to notice, at 9:38 a.m., in room SD–342, Dirksen Senate Office Building, Hon. George V. Voinovich, Chairman of the Committee on Governmental Affairs, presiding.

Present: Senators Voinovich, Durbin, Carper, and Lautenberg; Representatives Jo Ann Davis of Virginia, Tom Davis of Virginia, Chairman of the House Committee on Government Reform, Danny Davis of Illinois, Chris Van Hollen of Maryland, and Eleanor Holmes Norton, a Delegate in Congress from the District of Columbia.

OPENING STATEMENT OF SENATOR VOINOVICH

Senator VOINOVICH. The hearing will come to order.

Good morning, and thank you all for coming. Today the Senate Subcommittee on Oversight of Government Management and the Federal Workforce and the House Subcommittee on Civil Service and Agency Organization are meeting to examine the Federal Government's human capital challenges. This is the OGM Subcommittee's 12th hearing on this issue over the last several years.

I am very pleased that Representative Jo Ann Davis is cochairing this hearing. Her presence here today represents an ongoing partnership that we have forged as counterpart Subcommittee Chairmen since the beginning of this Congress. I believe that the 108th Congress represents a real opportunity to enact major personnel reform for the Federal Government. I am also pleased that Senator Susan Collins and Representative Tom Davis, the Chairmen of our respective full Committees, have expressed a strong interest in moving these important issues forward this year. I think this could be a great year.

Today's hearing represents an ongoing Subcommittee effort that is now in its 5th year. One of the reasons I ran for the U.S. Senate was to transform the culture of the Federal workforce, something I conscientiously undertook with the city and State workforces when I was Mayor of Cleveland and Governor of Ohio. Having

worked with the Federal Government as an "outside force"—as president of the National League of Cities and chairman of the National Governors Association—I observed that investing in personnel was not a priority in the Federal Government. As GAO Comptroller General Walker has observed—and we are very happy to have you here with us—for too long Federal employees have been seen as "costs to be cut rather than assets to be valued."

By pursuing a strategy of legislative reform and outreach, we have made considerable progress in raising the profile of strategic human capital management for the Federal Government.

Last November, as part of the Homeland Security Act, Congress enacted key elements of our legislation, the Federal Workforce Improvement Act of 2002. This was the first major governmentwide human capital reform legislation since the Civil Service Reform Act of 1978, a quarter century ago. Our bill reflected the consensus of a wide variety of public, private, and nonprofit stakeholders.

In the homeland security debate, we took the first step to address the pervasive problem by discussing some of the critical personnel issues in the Federal workforce. Now it is time to build on that debate and continue working with the General Accounting Office and the Bush Administration on the issue. GAO's High-Risk List and the President's Management Agenda both recognize strategic human capital management as their No. 1 priority.

This year, Chairwoman Davis and I have introduced legislation that will advance our reform agenda. We introduced the Federal Workforce Flexibility Act, the Senior Executive Service Reform Act, and the Presidential Appointments Improvement Act in the Senate and the House. These bills will help provide the tools the Federal Government desperately needs to maximize the effectiveness of its workforce.

At a press conference in this room last Wednesday, Representative Davis and I outlined in greater detail the provisions of these bills. Today, we are eager to receive the input of an array of witnesses on our legislation and other reforms that they might recommend. I thank our four panels of witnesses for joining us today. They represent some of the Nation's foremost experts on personnel management, and I look forward to their testimony.

I now yield to the Co-Chair of this hearing, Chairwoman Davis, for an opening statement.

STATEMENT OF JO ANN DAVIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mrs. DAVIS. Thank you, Chairman.

I want to begin by thanking Senator Voinovich for hosting this important joint hearing and our invited guests for joining us here today. Many words have been spoken over the last few years about the Federal Government's human capital crisis. In fact, it is now unusual to hear the phrase "human capital" not followed by the word "crisis" when discussing the Federal workforce.

This problem takes many forms: There is the potential wave of retirements as the workforce ages; the struggle for many agencies to recruit, hire, and retain talented employees, particularly in technical or scientific fields; the lack of training and career develop-

ment; and as we will hear today, the concern of employees that their work is not valued.

The Federal Government simply cannot function properly without good employees and managers who have the necessary tools to do their jobs for the American people. Meeting the Federal Government's workforce challenges is critical to the success of the Federal Government's core mission today and in the future.

Just last week, as Senator Voinovich said, he and I stood in this very same room and announced that we were introducing several pieces of legislation that begin to address some of these challenges by giving managers more flexibility to manage their agencies, streamlining the cumbersome Presidential appointments process, and relieving pay compression at the senior levels.

Allow me to highlight some aspects of the bills.

The Presidential Appointments Improvement Act streamlines but does not weaken the financial disclosure requirements, puts a process in place to reduce the number of political appointees, and enlists the Office of Government Ethics in an attempt to find a balance between necessary ethics requirements and unnecessarily intrusive ones.

The Federal Workforce Flexibility Act provides agencies with enhanced abilities to undertake management demonstration projects, permits agencies to pay out larger recruitment, retention, and relocation bonuses under certain circumstances, and enhances training by requiring agencies to link employee training programs with performance plans and strategic goals.

Finally, the Senior Executive Service Reform Act not only alleviates pay compression for senior executives, administrative law judges, Board of Contract Appeals members, and other senior government workers, but it also moves the SES to a broader pay for performance system and simplifies some hiring provisions.

I also want to repeat what I said last week. The Senator and I fully intend to work with the employee groups and the administration in shaping these bills as we move forward. That is why we are here today, to listen to and to gather ideas from our witnesses. I look forward to hearing your comments, and I thank you for coming.

[The prepared statement of Mrs. Davis follows:]

PREPARED STATEMENT OF MRS. DAVIS

I want to begin by thanking Senator Voinovich for hosting this important joint hearing, and our invited guests for joining us today. Many words have been spoken over the last few years about the Federal Government's human capital crisis—in fact, it is now unusual to hear the phrase "human capital" *not* followed by the word "crisis" when discussing the Federal workforce.

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Senator VOINOVICH. Thank you.

I now yield to Danny Davis, ranking member of the Civil Service and Agency Organization Subcommittee, for an opening statement.

STATEMENT OF DANNY K. DAVIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. DANNY DAVIS. Thank you very much, Senator Voinovich, Chairwoman Davis—a lot of Davises in this particular group—Chairman Davis, and Ranking Member Durbin. It is a pleasure to be here today at a joint hearing to consider civil service reform and the General Accounting Office's designation of the Federal Government's human capital as high risk.

Over the last several years, the Senate Subcommittee on Oversight of Government Management and the Federal Workforce has held numerous hearings on civil service reform. I am pleased that this session the House Civil Service and Agency Organization Subcommittee will be equally vigorous in examining civil service reform issues.

What is emerging from these hearings on civil service reform proposals is once again that the devil is indeed in the detail. To effectively reformed Federal operations and the workforce, we must first understand the logic and reasoning behind the outdated and outmoded rules and regulations. If not, we are destined to reform everything and improve nothing.

For example, if the current system is to be reformed to give managers more flexibility, how can we ensure that a new system will be fair and equitable and free from political influence?

Efforts to reform civil service that are based on the need for more flexibility may indeed be valid, but offering more flexibility without accountability is simply something that we cannot afford to do.

Legislation that offers flexibility without accountability should not be considered unless it specifies how decisionmakers in the government will be held accountable for their actions and the decisions they make.

I look forward to working with my counterparts in the Senate, Federal employee unions, research organizations, and others as we work together to improve the efficiency and effectiveness of the Federal Government and to place a higher premium on civil service.

Thank you so much, Senator, and I yield back the balance of my time.

Senator VOINOVICH. Thank you very much.

We welcome Eleanor Holmes Norton. Eleanor, it is nice to have you here with us. Do you have an opening statement that you would like to make.

OPENING STATEMENT OF ELEANOR HOLMES NORTON, A DELEGATE IN CONGRESS FROM THE DISTRICT OF COLUMBIA

Ms. NORTON. Thank you very much, Senator Voinovich. I would like to say just a few words.

First of all, I would like to thank you and Chairman Davis for this joint hearing. I remember, Senator Voinovich, your calling just such a joint hearing, perhaps a couple years ago when you chaired this Subcommittee, and beginning perhaps a tradition of our working together on this really huge problem of human capital in our Federal workforce. Beginning with that flexibility in the SES makes some sense. I am concerned with human capital up and down the Federal workforce, including, of course, those who manage the system.

I believe that the Federal Government has rested on its human capital laurels now for decades. The Federal Government was a natural magnet for the smartest people in the society, for the management jobs, and all up and down the line. From the New Deal on, government was exciting. But the Federal Government over the past two decades has failed to wake up to the fact that it now has become competitive with other employers. And the real indication of that is if you go into the public schools of the United States and ask people what they want to be, you will have a hard time finding somebody that says, "I want to work for the Federal Government," or "I want to have a job that is associated with the Federal Government." That is a problem. That is a problem whether you are talking about the SES or the line worker, and some of us happen to be at least as interested in the line workers who deliver the service and who are evaporating, having been trained by us and now going to market their skills elsewhere.

I could not be more empathetic with the notion to have managers who have the flexibility to do what needs to be done because I ran a very troubled agency and had to reconstruct it from the ground up, the Equal Employment Opportunity Commission, who had a humongous backlog and literally had to change everything within the agency. I have a keen appreciation for what managers have to do.

What I think we have to look at is a discipline that we have in the Federal Government that no other workforce has, and that is that you have to work within a civil service merit system. And how do you get the flexibility that is necessary to manage the system while being true to merit system principles? That is the challenge,

and that is the challenge I think we should ourselves be accountable to. Thank you very much, Mr. Chairman.

Senator VOINOVICH. Thank you, Eleanor.

I would like to welcome the Chairman of the House Government Reform Committee, Representative Tom Davis. Tom, it is very nice that you came this morning. Would you like to share some opening remarks.

STATEMENT OF TOM DAVIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA, CHAIRMAN OF THE HOUSE COMMITTEE ON GOVERNMENT REFORM

Mr. TOM DAVIS OF VIRGINIA. Senator, just very briefly. I am just here because this is real important to our Committee, and we are just pleased at your interest in this, and we are hoping maybe this is the session that we can get some things moving. This is a huge problem that faces the Federal Government in the out-years. We are going to hear a lot from our witnesses today. I used to work for a company out in the Beltway, a billion-dollar IT company, and our most important asset wasn't our computers, wasn't our buildings, and it wasn't our patents. It was our people. They walked out the door every night, and we prayed they came back the next day. That was our asset, and how we rewarded and retained those people was very important to our staying competitive and staying ahead of the curve.

It is the same with the Federal Government. That is our most important asset, and I think it is sometimes underutilized. And I think we will hear some great ideas today on some of the things we need to do in a proactive manner so that this human capital crisis that we face in the out-years perhaps doesn't come to pass.

So thanks for your leadership; thanks to Mrs. Davis for hers. And I am just glad to be here.

[The prepared statement of Hon. Tom Davis of Virginia follows:]

PREPARED STATEMENT OF CHAIRMAN TOM DAVIS, HOUSE COMMITTEE ON GOVERNMENT REFORM

Despite best intentions, reform of the civil service system is a long debated topic with very little progress to show for it. With the exception of a few minor steps forward, there is surprisingly little difference between today's civil service system and the original system created fifty years ago. Unfortunately, the job market outside of government has changed drastically over the last half century, necessitating that Congress and the Administration take a careful look at the civil service system to determine what changes can and should be made in order to recruit and retain the best and the brightest civil servants.

The Administration has already taken the first step on this issue, assigning "strategic management of human capital" as one of five government-wide initiatives in the FY 2002 President's Management Agenda. More specifically, the President's Management Agenda calls upon agencies to (1) establish performance-oriented compensation systems, (2) adopt information systems that will minimize the "brain drain" should a wave of retirements occur in the next decade, and (3) take full advantage of existing personnel flexibilities in order to determine what statutory changes are necessary.

The recently issued final report by the National Commission on the Public Service (the "Volcker Commission") iterated the importance that the Bush Administration has placed on the strategic management of human capital. The Volcker Commission recommended that (1) the Federal workforce be rooted in new personnel management principles that rely more heavily on government performance, (2) a more flexible personnel system be adopted, in terms of rewarding effective employees and disciplining underperformers, (3) the process of recruiting new hires be streamlined, and (4) agency managers be given the flexibility to more closely tie compensation

to current market comparisons. We held a hearing with several of the members of the Commission (Volcker, Carlucci and Shalala) who all told us the importance of a new system.

The Congress must work to determine which civil service system improvements must be accomplished in the coming years and legislate such improvements.

Senator VOINOVICH. Well, thanks very much.

Will the witnesses that are going to be testifying today stand? It is the custom of this Subcommittee that we swear in all witnesses. If you will, raise your right hand. Do you swear that the testimony you are about to give before this Subcommittee is the truth, the whole truth, and nothing but the truth?

Let the record note that the witnesses have answered in the affirmative.

The sole witness of our first panel is the Hon. David M. Walker, Comptroller General of the United States of America. It is a pleasure that Comptroller General Walker's mother and father are here with us. We welcome you to this hearing.

Two years ago, Mr. Walker appeared before the Subcommittee to discuss the designation of strategic human capital management as a new item on GAO's government high-risk list. Today, the Subcommittee is interested in learning what progress has been made on this issue and to receive Mr. Walker's recommendation for strengthening human capital management so that it can be removed from the high-risk list.

I would ask all witnesses, if possible, to limit their oral statements to 5 minutes each, and I remind you that your complete statements will be entered into the record.

Mr. Walker, we would like to hear from you this morning. Thank you for being here.

TESTIMONY OF HON. DAVID M. WALKER,[1] COMPTROLLER GENERAL OF THE U.S. GENERAL ACCOUNTING OFFICE

Mr. WALKER. Thank you, Chairman Voinovich, Chairwoman Davis, Chairman Davis, Ranking Member Davis, Ms. Norton—you are right; there are a lot of Davises here today. It makes it a lot easier, though, quite frankly. And as you noted for the record, Chairman Voinovich, my parents are here today, and for the record I want to thank them for all that they have done to help me be where I am today.

It is a great pleasure to appear before you today to discuss the Federal Government's greatest asset: Its people. Since GAO designated strategic human capital management as a governmentwide high-risk area in January 2001, Congress, the administration, and the agencies have taken a number of steps to address the Federal Government's human capital shortfalls. In fact, my major point today is, I believe, that we have made more progress in addressing the government's longstanding human capital challenges in the past 2 years than in the last 20. And I am confident that we will make even more progress in the next 2 years than the past 2 years.

Despite the building momentum for comprehensive and systematic reforms, it remains clear that today's Federal human capital strategies are not yet appropriately constituted to meet current and emerging challenges or to drive the needed transformation across

[1] The prepared statement of Mr. Walker appears in the Appendix on page 71.

the Federal Government. Committed and sustained leadership and persistent attention on behalf of all interested parties will continue to be necessary to build on the progress that has been made and is being made if lasting reforms are to be successfully implemented.

Congress has had and will need to continue to have a central role in improving agencies' human capital approaches. As part of the oversight and appropriations process, Congress can continue to examine whether agencies are managing their human capital to improve programmatic effectiveness and to encourage agencies to use the range of appropriate flexibilities available under current law—and, yes, Mr. Davis, in fact, to hold them accountable, to make sure that they are using the flexibilities in a reasonable manner and a manner that does not result in abuse.

Congress will also play a critical role in determining the nature and scope of any additional human capital flexibilities that will be made available to agencies while assuring that adequate safeguards are incorporated to prevent abuse. Congress also has the responsibility to ensure the reasonableness and adequacy of financial resources that are made available to agencies for their most valuable asset, namely, their people.

Congress is currently considering several pieces of legislation to help agencies address their current and emerging human capital challenges. I believe that the basic principles underlying these legislative proposals have merit, and collectively they would make a positive contribution to addressing high-risk human capital issues and advancing the needed cultural transformation across the Federal Government.

I also believe that certain additional safeguards and provisions should be considered by the Congress, and we look forward to working with this Subcommittee and the Congress in that regard.

Mr. Chairman, as you know, I have a lengthy statement which I would like to have included in the record, and it includes a number of specific examples about additional safeguards and possibly other provisions that this Subcommittee may want to consider.

For example, in our view, the SES needs to lead the way in the Federal Government's effort to better link pay to performance. However, in our view, agencies should be required to have modern, effective, credible, and, as appropriate, validated performance management systems in place before they are granted authority to significantly link pay to performance for broad-based employee groups. In this regard, the Congress should consider providing specific statutory standards that agencies' performance management systems would be required to meet before OPM could approve any such pay-for-performance effort. Our own experience at GAO in implementing such reforms and the practices of other leading organizations, which was the subject of a report issued by the two Chairs last week, could serve as a starting point for such consideration.

We, at GAO, believe that it is our responsibility to lead by example. We seek to be in the vanguard of the Federal Government's overall transformation efforts, including in the critically important human capital area. We are clearly in the lead at the present time, and we are committed to staying in the lead.

We have identified and made use of a variety of tools and flexibilities, some of which were made available to us in the GAO Per-

sonnel Act of 1980, and some of which were made available by the Congress in 2000. But many of the flexibilities we have are available to every Federal agency. Overall, we have implemented a number of human capital initiatives, including a number outlined in my testimony, some of which are recent, some of which are longstanding, and others of which are planned or in progress.

Many of these required one-time investments to make them a reality. We worked with Congress to present a business case for funding a number of these initiatives, and fortunately the Congress has supported these and other GAO transformation efforts.

In that regard, as you know, we expect in the coming weeks to be formally approaching Congress with recommendations to provide GAO with additional statutory flexibilities in order to help us better manage our people. The legislation we are planning to recommend would, among other things, facilitate GAO's continuing efforts to recruit and retain top talent; develop a more performance-based compensation system; help better align our workforce; and facilitate our succession planning and knowledge transfer efforts. We believe that these authorities will strengthen our efforts to serve the Congress and the American people.

As has been the case in the past, we also expect that the use of our authorities will provide valuable lessons for the Congress and other agencies on how human capital flexibilities can be used in a way that provides reasonable flexibility but incorporates appropriate safeguards to prevent abuse, including reasonable transparency and appropriate accountability mechanisms.

Mr. Chairman, Ms. Chairman, all other Members present here today, that concludes my oral statement. I would be more than happy to answer any questions you may have. Thank you.

Senator VOINOVICH. Thank you very much, Mr. Walker.

Your testimony discusses the need to reform the current Federal pay system to reflect the knowledge-based workforce of the 21st Century versus the heavy clerical workforce of the 1950's. To that end, the Bush Administration included in the 2004 budget a $500 million pay-for-performance fund to complement the annual cost of living adjustment.

This proposal has not been that well received. I have a concern about it, and that is, whether agencies have the infrastructure to fairly administer a pay-for-performance system. Now, you alluded to that in your testimony, but would you comment on what steps agencies need to take to effectively implement such a system?

Mr. WALKER. Senator, I believe a vast majority of Federal agencies do not have the infrastructure in place in order to effectively and fairly move to a more performance-based compensation structure. I think we ought to start with the SES, and I think that agencies need to, with regard to the broad-based workforce, develop modern, effective, credible, and as appropriate, validate performance appraisal systems that are based on key competencies, linked to their strategic plan, tied to the desired outcomes and the core values of their respective agencies. We have done that at GAO.

I also believe that it is important to be able to supplement that new modern, effective, and credible performance appraisal system with such other safeguards as paneling processes comprised primarily of career executives to try to assure equity and consistency

in application. I believe it is also important to make sure that offices of opportunity and inclusiveness such as ours and human capital offices are involved up front before final decisions are made on performance appraisals, pay, and promotion decisions, to make sure that they are being applied, as much as is humanly possible, consistently, in an equitable manner and in a manner that prevents discrimination or abuse.

These are some of the things that I believe it is important to have in place. Conceptually, I believe that the administration is right that we need to move more towards pay for performance, but I think agencies need to have the infrastructure in place before they operationalize related authories. I also question the adequacy of the amount of performance based pay they are proposing in addition to the 2-percent base.

Thank you.

Senator VOINOVICH. Would you be willing to share with us some statutory language that could be a precondition to proceeding with such a system? We would be very interested in having that.

Mr. WALKER. We would be happy to provide technical assistance to these Subcommittees in that regard, Mr. Chairman.

Senator VOINOVICH. Congressman Davis.

Mrs. DAVIS. Thank you, Mr. Chairman. Which Congressman, him or me?

Senator VOINOVICH. Mr. Chairman Davis.

Mr. TOM DAVIS OF VIRGINIA. I will just be brief. Let me ask——

Senator VOINOVICH. I am glad they worked that out.

Mr. TOM DAVIS OF VIRGINIA. The administration's proposal right now, your concerns about it are, first, we don't have the infrastructure really to move this ahead in an appropriate fashion. Second, I am concerned about pay parity issues. When you start giving military one and the civilian branch another, it just makes it look like this is the raise that we would have gotten and now you are going to have to earn it. And I think it creates a whole difficulty in implementing it.

Let me just get your comments. You have expressed some concern about it, and I wonder if you could elaborate.

Mr. WALKER. I think pay parity is an important issue. My view is there is no question that we need to move more towards a performance-oriented compensation system and a more market-oriented compensation system. The pay parity system that we have right now, quite frankly, treats everybody the same, virtually. It assumes that the pay gap, for example, is the same for every position, every locality, every skill and occupation, and that is just not true. That is factually wrong.

And so I think that clearly we need to move more towards a system that pays more based upon skills, knowledge, position, and performance rather than the one that we have which is basically largely a one-size-fits-all approach, so I agree that we need to move that way, but I think that one of the safeguards needs to be that before agencies would be allowed to do that for a broad cross-section of their workforce, they need to demonstrate that they have the infrastructure in place to be able to implement pay for performance in a fair, equitable, and reasonable manner.

Mr. TOM DAVIS OF VIRGINIA. Do you think they need some additional legislation to do that, or could that be done administratively?

Mr. WALKER. I think that you could do that as part of legislation that would provide specific statutory safeguards that would say, for example, in order for OPM to approve an agency being able to use more performance-based compensation, they would have to meet these certain statutory standards that they could then administer.

Mr. TOM DAVIS OF VIRGINIA. Also, isn't it a fact, I mean, in some areas every time there is a vacancy, there are hundreds of applications and there is no problem getting people at a certain pay level, and in other areas, we have difficulty getting people. We train them a little bit and we lose them. So there is disparity throughout the Federal system, and we don't treat the system that way. We seem to have a one-size-fits-all. Is that accurate?

Mr. WALKER. That is correct. There are certain critical occupations where you need to be able to use additional tools in order to attract and retain people, and I think that our system needs to recognize that. It does to a certain extent. Agencies have the ability to pay recruiting bonuses and retention bonuses, and I know that one of the provisions in the legislation under consideration would enhance that with regard to certain critical occupations. I think that has intellectual merit as long as you have adequate safeguards to make sure that people are using the authority when it is justified and not doing it in situations where it is not.

Mr. TOM DAVIS OF VIRGINIA. I also am concerned about so much work is being outsourced simply because we don't have an in-house capacity. We don't have any in-house check and it is going out the door because of a capacity issue. And we are having difficulty particularly in some technical areas recruiting, training, and retaining people in some of these areas.

Mr. WALKER. Well, the sourcing issue is a very important issue. As you know, I chaired a panel last year, the Commercial Activities Panel, that make some recommendations on sourcing strategy. There are several contracting areas in the Federal Government that have been on our high-risk list for years—NASA, IRS, DOD, DOE, just as an example, where they have contracted out a significant amount of activities without providing an adequate number of Federal workers who have the skills and knowledge, to be able to manage cost, quality, and performance. It is critically important that the Congress adopt the recommendations of the Commercial Activities Panel, that the administration follow them, and that we have an adequate number of people to be able to manage whatever we decide to contract out.

Mr. TOM DAVIS OF VIRGINIA. Thank you, and I am proud to claim you as a constituent.

Mr. WALKER. Thank you, Mr. Chairman.

Senator VOINOVICH. Representative Davis.

Mrs. DAVIS. Thank you, Mr. Chairman. Thank you, Mr. Chairman.

Mr. Walker, the Homeland Security Act of 2002 which was enacted on November 25 requires the appointment of chief human capital officers in the major agencies. The chief human capital officers are to advise and assist the agency head and other agency officials in carrying out the agency's responsibility for selecting, devel-

oping, training, and managing a high-quality, productive workforce, as well as implementing the rules and regulations of the President and OPM and the laws governing the civil service within the agency.

These chief human capital officers are to be appointed by the agency head within 180 days of the enactment of the Homeland Security Act, which would be May 24, 2003.

Do you know how that process is coming along?

Mr. WALKER. I am going to be meeting with OPM Director Kay Coles James this afternoon on several topics. That is one of the issues that I plan to discuss with her. I believe it is critically important that we get this right rather than do it quick. These positions need to be filled with the right type of people. This is a strategic position. It is one that is fundamentally different from many of the types of personnel or human resource positions that we have had in the Federal Government in the past. And I think it is important that we have a governmentwide approach that assures some consistency in how we are filling these jobs. In other words, I think it is important, and hopefully OPM is playing an active role in working with the agency heads, to make sure that the type of people that they are proposing to appoint in fact are the type of people that are necessary to get the job done. And I will be making that inquiry this afternoon. But in the final analysis, I think it is much more important to do it right than to do it quick.

Mrs. DAVIS. Could you, after you meet with OPM, get back to us with a report on where they stand on these appointments?

Mr. WALKER. I would be happy to do that.

Mrs. DAVIS. Thank you, Mr. Chairman.

Senator VOINOVICH. Would you now like to call on your Ranking Member?

Mrs. DAVIS. Yes. Now I will call on my Ranking Member, Danny Davis.

Mr. DANNY DAVIS. Thank you very much, Madam Chairman.

Mr. Walker, it is good to see you again. I want to thank you so much, and especially I want to thank you for the responsiveness of your agency to inquiries and requests that I have made for information, analysis, and studies. We really appreciate that.

I appreciated your comments relative to emphasis on leadership and accountability as well as the idea that financial resources must be available in order to have the kind of capital structure that we need in terms of the ability to take care of the human elements that must be employed.

I also appreciated the idea that the Federal Government has to be and should, in fact, be the leader, and that leadership has to go in the areas of recruitment, development, and especially inclusivity, that is, being able to reach out throughout the breadth and depth of America and make sure that our workforce seriously looks like America in a real kind of way.

It is my understanding that the Managing Director of the Office of Opportunity and Inclusiveness reports directly to you. Could you tell us what the value of having this person or this office report to you is?

Mr. WALKER. Thank you, Mr. Davis. We are happy to support your requests. You have had some very good ones

Ron Stroman, who is our Managing Director for Opportunity and Inclusiveness, reports directly to me. He is directly responsible for trying to make sure that our agency is taking affirmative steps to reach out to hire a diverse workforce, that we have appropriate policies, procedures, systems, and safeguards in place to maximize opportunity for all of our employees and to prevent discrimination. It has helped tremendously because, first, Ron is a first-class professional. He is one of the top people in his field in the country, not just in the Federal Government. Second, by having him report directly to me and by having us work together on an ongoing basis, it demonstrates clear commitment from the top of the agency to this important element of human capital strategy. And we have made considerable progress in the recent past, in part as a result of the efforts of Ron and his team.

Mr. DANNY DAVIS. Does each agency or government unit have such an individual internally?

Mr. WALKER. Well, my understanding is there are a number of offices that have Offices of Civil Rights. My view is those terms are somewhat outdated. It is really about what you said. It is about opportunity, equal opportunity, and inclusiveness, and it is taking affirmative steps to try to achieve that while at the same point in time not compromising standards and assuring reverse discrimination.

And so the answer is no, I do not believe that each agency has something like we do. And to the extent that they have an office, it may not be approaching its duties and responsibilities in the same way that we are. I am not saying that ours is right or necessarily even the best, but it is fundamentally different from what I saw when I headed two Executive Branch agencies.

Mr. DANNY DAVIS. And, finally, Mr. Chairman, if I might, following up on a line of questioning by Chairman Davis relative to outsourcing, and privatizing, I have always wondered whether much of our activity in outsourcing is philosophical or is it based upon need, or do we have the ability to develop the competencies that are needed in certain lines of activity? And do we have enough call for that internally so that our own workforce would be able to provide those services effectively and efficiently and if there aren't some areas where we really don't use the talent as effectively as we could?

Mr. WALKER. Several answers. First, I think at times it has been philosophical. For example, in the Eisenhower administration, the policy was if it could be done by the private sector, it should be done by the private sector. Sometimes it is political because of campaign promises that are made that deal with this issue. But there are market factors as well. The fact of the matter is that the government, even if it wanted to be able to attract and retain people to perform certain functions, if because of its compensation policies or practices or whatever else, it can't attract and retain an adequate number of people, then you have to go to the private sector. You don't have a choice but to do that.

And sometimes the government hasn't adequately invested in its human capital, in its own people, and that has served to undercut its capabilities, and there is an opportunity cost there. So I think it is multidimensional.

Mr. DANNY DAVIS. Thank you very much, Mr. Chairman.

Senator VOINOVICH. Madam Chairman.

Mrs. DAVIS. Now I would like to call on Ms. Norton for questions.

Ms. NORTON. Thank you, Madam Chairman.

Mr. Walker, I appreciate your testimony. I myself perhaps by training, particularly when embarked on a new adventure, I am impressed by the power of precedent. You spoke in your testimony of existing flexibilities that the Federal Government has had. I would be most interested in how those existing flexibilities might inform this far more contentious notion of pay for performance.

For example, you even say in your GAO report that the GAO has been leading by example, and you cite examples of that—broadbanding, voluntary early retirement, recruiting, and a number of other examples.

Of course, those are not nearly as contentious as telling people they are going to be paid by what somehow somebody says they have performed, especially when we were told in a prior hearing that this is really a case study for use on the entire workforce.

So I would like to know what you have done to look at the flexibilities that the government already has, whether they have been evaluated, and what they tell us already about flexibility and how it is working in the Federal Government.

Mr. WALKER. Well, first, I do not believe that agencies are coming close to using all the flexibilities that are available to them, but there are various reasons why they may not. In some cases, they may not understand them. In some cases, they may not have the funding.

For example, student loan repayment, which Congress passed, GAO has the second largest student loan repayment program in the Federal Government, yet we only have 3,200 employees, which is very small as compared to most departments and agencies. Yet, we have the second largest student loan repayment program in the Federal Government.

In addition to that, we have done a number of things in the recruiting area to use some of the flexibilities with regard to retention bonuses, recruiting bonuses, things of that nature that are available to others, and others may not have done that.

We have broadbanding. That is something that we were granted in 1980. Most agencies don't have that. I think that is something that——

Ms. NORTON. Mr. Walker, has anybody looked at anybody's version of the flexibilities for outcomes to see whether they work or not? I recognize what you are saying, that agencies for various reasons haven't always implemented them. But we have got flexibility. We are now going to even greater flexibility. I am trying to find out whether GAO or anybody else has looked at what flexibility has done for us already.

Mr. WALKER. We are doing some work in that regard, and I imagine that OPM can probably comment on what they are doing. There are case studies out there. There are case studies where there have been demonstration projects in the past, where people have been granted certain flexibilities and have used them, and I think it is important that they help to inform the Congresss' decision going forward.

Ms. NORTON. Should this be a demonstration project? You certainly start with the SES at the smaller and top element of the government. Again, going back to my own experience, when I had to undertake huge changes in an agency, the reason I think it succeeded was that we didn't do it all at one time, that we did what we called a pilot project, in this case in various regions, learned from that project, kept from making the mistakes writ large.

Is it your recommendation that pay for performance be implemented straight out throughout the SES or that some smaller version or pilot project which would allow us to discover mistakes be started once we have the appraisal system that you think is the prerequisite for starting it all?

Mr. WALKER. Well, first, I think that we need to learn from the demonstration projects we have already had, and that is one of the things that we are looking at, and hopefully OPM as well—those that have been given some flexibilities, what have they done?

Ms. NORTON. I am talking about pay for performance.

Mr. WALKER. I understand that. I am talking about that, too. There are situations where others have been given flexibility in that regard, and we ought to study that.

Ms. NORTON. And we have no outcome from that that has already been evaluated?

Mr. WALKER. We are doing some more evaluation, but some has already been done. I think the SES is the logical place to start.

Ms. NORTON. With the whole SES?

Mr. WALKER. I think it is also important that you have modern, effective, and credible performance appraisal systems for the SES before you implement it as well. And I am not convinced that many Federal agencies have that.

My view is that if you can end up incorporating statutory safeguards that must be considered by OPM before they could approve an agency being able to use it either for their SES but especially for the rank-and-file, if you could do that as a condition of being able to operationalize additional pay for performance authority. It would be very substantive.

Ms. NORTON. Now, you said certified—I think you used the word "certified"—appraisal systems or performance management systems. What do you mean by "certified"?

Mr. WALKER. I mean that OPM would have to certify that in their view the statutory conditions have been met. Let me give you an example in the case of GAO. For us, we have developed a modern, effective, and credible performance appraisal system that is based on competencies, tied to our strategic plan, and for our broad-based workforce, the competencies were validated by the employees before we implemented it.

It is not perfect. It is a huge change from the last prior system. But our employees actively participated. They validated the competencies, and, therefore, I think that is something that is desirable and a best practice.

Ms. NORTON. The validation, the notion of validation studies and validation seems to me is going to be absolutely critical, or else this system—we know what this workforce is. It is highly educated. It is conscious of its rights. And one of the first outcomes could be a

whole bunch of grievances in court suits if, in fact, there is not a validated system put in place.

Thank you very much, Madam Chairman.

Senator VOINOVICH. Senator Carper.

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. Thanks, Mr. Chairman.

To General Walker, welcome. Good to see you again. Thank you for joining us.

To our House colleagues, to Representative Davis and to Representative Davis and each of the other Representatives, we welcome you and thank you for coming to this end of the Capitol.

As an old Governor, I was one who was interested in trying to introduce pay for performance for our State employees in Delaware. I suspect former Governor Voinovich had some interest in Ohio along those lines as well.

Interestingly enough, it was our legislature which generally blocked our efforts. We made some progress but not to the extent that we wanted to.

There are some States and probably some cities that did better than we did in the 8 years I was Delaware's chief executive. Delegate Norton was talking about pilot projects and that sort of thing. I wonder if there are some pilot projects out there that you might be aware of within State or local governments so we can almost use them as a pilot project because of their role as laboratories of democracy. Are you aware of any that are especially——

Mr. WALKER. Not off the top of my head, Senator, but I will tell you that is something that we can look into, if we are not already. One of the things that we are doing increasingly at GAO is trying to partner with State and local officials, especially the auditor generals, State auditors and county and city auditors, to try to share knowledge and information. And this is one I could follow up on.

Senator CARPER. You may know, there is an organization of State budget directors and State personnel directors as well who have a lot of interest in these kinds of issues.

Let me just ask, to back up a little bit, if you could give us a road map of sorts.

What might be the appropriate next steps for us as legislators as we consider pay for performance, something that actually rewards good performance but something that tries to provide safeguards for employees?

Mr. WALKER. My view is start with the SES with some type of standards that would even have to be met within the SES. Look to some demonstration projects, and provide for additional demonstration projects for broad cross-sections of the workforce within the Executive Branch, and also the Legislative Branch, GAO specifically. But, again, they should have to demonstrate that they have these safeguards before they end up implementing the pay-for-performance system.

We have done that at GAO. We have them for most of our workforce. It is not a promise. We believe in the Missouri principle, "Show me," and we can show you.

And so I think if you do that, what will happen is that we will see what works and what doesn't work. We will learn some valu-

able lessons. One of the concerns that I have is if you go too fast on pay for performance before people have their systems in place, then you can end up having a bunch of disastrous experiences which could taint the whole concept. And I believe the concept is right. I believe we need to place increased emphasis on pay based on skills, knowledge, position, and performance, but we need to be careful how we do it, or else we are going to get off to a bad start, and that is not going to be in anybody's interest.

Senator CARPER. Last year, we debated and voted on some proposals by Senator Voinovich and Senator Akaka with respect to flexibility for Federal agencies, in the context of the creation of a new Department of Homeland Security.

Could you make some comments on what we did legislatively, what kind of extra flexibility that gives to Federal agencies and how that might be used?

Mr. WALKER. Well, as you know, Senator, not only did you provide certain additional flexibility to the Department of Homeland Security, which was controversial and contentious. If you will recall, that was kind of the last thing that got resolved in the legislation.

Senator CARPER. I recall that.

Mr. WALKER. Yes, I am sure. I didn't have much hair that I could lose, but some may have lost some as a result of that.

But, in any event, in addition to that there were provisions that Chairman Voinovich proposed that were adopted governmentwide and they provided additional flexibilities.

I might note for the record that some of those were ones that GAO had already demonstrated could be successfully implemented, such as the ability to provide voluntary early-outs and buyouts to realign the workforce rather than to downsize the workforce. So I think it was a positive step forward.

Senator CARPER. All right. Good. Thanks very much.

Senator VOINOVICH. Congressman Davis, do you want to call on your next witness?

Mrs. DAVIS. Yes. Mr. Van Hollen.

STATEMENT OF CHRIS VAN HOLLEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

Mr. VAN HOLLEN. Thank you, Chairman Davis, Senator Voinovich. Welcome, Mr. Walker, It is great to have you with us today. As you may know, I represent an area of the Washington suburbs where we have lots of Federal employees, and so this whole topic is, of course, of great interest to them and to myself.

Just to follow up on Congresswoman Norton's comments with respect to demonstration projects and phasing this in, we had a hearing on our Subcommittee recently where we got into the pay-for-performance issue, and one of the things that came out, as I understood it, was that even now we are talking about phasing in these new performance standards and linking them, obviously pay to performance. But there is really not any set of sort of uniform standards now that we can apply. Is that right?

Mr. WALKER. That is correct. I think the one thing that agencies need to do that doesn't require any legislation at all is to develop modern, effective, and credible performance management systems

and to put them in place. There is no legislative action necessary for that to happen.

Mr. VAN HOLLEN. And that is my point. Why not as a first step at least get the standards in place before we establish the next link, which is to tie it to pay? I mean, let's at least get these performance measures in place on a uniform basis. That in itself is going to be a large task. I appreciate the fact that you have done it at GAO. I think that is terrific. But I think we should begin to do it in the agencies, give that time, give people time to adjust to those performance standards before you take the next step. And I wonder if you could respond to that.

Mr. WALKER. Well, and my point on that is I think you can do that reasonably expeditiously among the SES, and I think that it would make sense for you to be able to allow for some additional demonstration projects with appropriate statutory safeguards that would have to be met. For other agencies to do it as a test, for a broad cross-section of their workforce, I do think that would be appropriate.

But, again, I think that the agency should have to demonstrate that they have these systems and controls in place before they should be allowed to implement any additional pay flexibility. But ultimately I think this flexibility should be broad-based throughout the government.

Mr. VAN HOLLEN. I guess my point is, the administration has introduced legislation on this issue, but they have got a lot of freedom right now to do a lot of things without the legislation that they have not done. And it just seems to me to make sense to allow people to become comfortable with the standards before you begin the linkage.

Mr. WALKER. They do, but in fairness, Congress last year, for example, passed a 4.1-percent pay raise, but only funded 3.1 percent. There was a 1-percent unfunded mandate which somehow has to be made up. And in addition to that, that 4.1 percent was given to every Federal worker, no matter what their skills, knowledge, performance, and position was, even people that were unacceptable performers, which is a very small percentage. Unacceptable performers got the same thing as the top person in the agency. That is just wrong.

And so ultimately we need to move towards a more modern, effective, and credible system, but we need to be careful how we do it.

Mr. VAN HOLLEN. Right. Well, I am not sure the fact that the full 4 percent wasn't originally provided is the reason the administration can provide for not going forward. After all, they never requested the 4.1 percent for the civil service. And, in fact, in this year's appropriation, they have only requested 2 percent. So I think it is difficult for them to point to that as a reason they are not moving forward.

Let me just ask you one other question with respect to the Senior Executive Service because, on the one hand, I understand the reasons for moving forward with the Senior Executive Service first. On the other hand, sometimes with other jobs in the Federal Civil Service, it is easier to measure performance. Sometimes at higher levels, certain types of jobs—Deputy Assistant Secretary for the

Near East or South Asia—it is harder to measure the performance, more difficult than, for example, if you are measuring against a procurement contract and savings in that kind of area.

What do you think the dangers—and this is true of a Republican or a Democratic administration. But obviously, in the Senior Executive Service you have much more interaction between the political appointees and the members of the Senior Executive Service. How do you analyze the dangers of really just compensating people based on willingness to support a particular political position within an administration? This is a danger in either administration. I just would like you to evaluate that.

Mr. WALKER. I would recommend that you do it using a competency-based approach, which actively involves employees and their unions as appropriate in developing what those competencies ought to be. I think you also have to not only have an appropriate performance appraisal system, I think you have to have things like paneling processes, which are comprised primarily, if not exclusively, of career officials that will end up taking that information and others to try to make recommendations on pay, promotions, and other types of human capital issues.

So I think there are a number of things that can and should be done. In most cases, we have already done them at GAO, and selected other people may have as well.

Mr. VAN HOLLEN. Thank you, Mr. Chairman.

Senator VOINOVICH. I would like to point out to Members of the House and Senate here this morning that Mr. Walker has to be at a hearing on the House side at 10:30.

Mr. WALKER. And I do not believe in cloning. [Laughter.]

Senator VOINOVICH. Senator Lautenberg, would it be all right with you if we excused him, or would you like——

OPENING STATEMENT OF SENATOR LAUTENBERG

Senator LAUTENBERG. Yes, if he agrees with us, absolutely. [Laughter.]

I understand that Mr. Walker takes a somewhat cautious view of the quick conversion to commercial or to the private sector side. And I will just say, Mr. Chairman—I commend you for holding this hearing—that I have spent much of my life in the corporate world and I built a large company and saw people hard at work. I then came here and saw people work for a lot less money, who were equally committed, dedicated folks. I think we have to keep that in mind before we arbitrarily decide that we can put out everything on the cheap and hire the lowest-cost labor that we can find. That is no way to do things.

So I concur, Mr. Chairman, as long as I can put my statement in the record as if read.

PREPARED STATEMENT OF SENATOR LAUTENBERG

Mr. Chairman, I commend you for holding this hearing and for your recognition of the looming human capital crisis in the Federal Government.

Today's joint hearing is about people. Civil servants are the backbone of our government and we should remember that the skills, talent, and professionalism of the men and women in the Federal workplace are the best in the world.

The overwhelming majority of civil servants are dedicated to their jobs. Many of them could make more money in the private sector but they work in the government because they see public service as a higher calling.

It's crucial that we all hold civil servants accountable for the jobs they do. But it's also important that we avoid demeaning and denigrating them. Too often, administration officials, political appointees, and Members of Congress take potshots at career Federal employees who can't defend themselves and that does nothing but lower morale.

As a former businessman, I appreciate the administration's need for flexible recruiting, hiring, and retention policies.

But as a public official I am equally aware of the fact that "flexibility" should not mean undermining basic civil service job protections. The Civil Service was created as a remedy to the rampant political excesses and abuses of the previous system. While the Civil Service may need to be modernized, at its core it has served this country well over the years.

I must say that I am very concerned about the administration's announced intention to "complete" 127,500 Federal jobs by September 30, 2003.

I *am* particularly concerned about the administration setting an arbitrary quota and an impossible deadline for privatization, and then deliberately withholding from agencies the financial resources they need to conduct the public/public competitions.

I get the impression that the administration has determined in advance the way these competitions should go, and that's to the private sector.

We need to address the way in which we plan to balance privatization—the contracting out of Federal jobs—with Federal employee recruitment, retention, and morale.

Beyond the issue of deciding what to contract out, there is something even more fundamental: That's giving agencies the personnel and the other resources they need to do their jobs. If we don't do that, we are just setting them up to fail.

I'll give you an example of what I mean: We have created the Department of Homeland Security (DHS) but the administration has repeatedly submitted appropriation requests that are—frankly—insufficient to enable DHS to achieve its mission to protect Americans here at home.

Government should be as efficient as possible but we simply can't expect government to do its job "on the cheap."

There is an old saying, "You get what you pay for." To continue recruiting and retaining skilled and dedicated civil servants, the Federal Government needs to offer competitive wages, health benefits, and retirement plans.

Many people correctly point out that taxpayers are the owners of the Federal Government and deserve the most effective and efficient government possible. I agree, but I would also point out that Federal employees are taxpayers, too, and they have "invested" even more than their taxes—they have invested their working lives. They deserve to be treated fairly and with respect. Doing so will maximize all taxpayers' value.

Mr. WALKER. Mr. Chairman, I am happy to answer any questions for the record or meet with any Member on this issue if they so desire. And I appreciate your understanding.

Senator VOINOVICH. Thank you very much, and I think Senator Lautenberg is very valuable in this because of his experience in the private sector. He has some insight into it that a lot of us don't have.

Thanks for being here again.

Mr. WALKER. Thank you. My pleasure.

Senator VOINOVICH. Our next witness is the Hon. Dan G. Blair, Deputy Director of the Office of Personnel Management. Dan, I want to welcome you back to the Senate.

Prior to his appointment with the Bush Administration, Mr. Blair served as senior counsel to Senator Fred Thompson, former Chairman of the Governmental Affairs Committee. He brings nearly two decades of experience in personnel and government management to his position, and we are glad to have you here this morning. Dan, you may proceed with your statement.

TESTIMONY OF HON. DAN G. BLAIR,[1] DEPUTY DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

Mr. BLAIR. Thank you, Mr. Chairman, Madam Chairman, Members of the Subcommittees. Thank you very much for the invitation to testify this morning.

On behalf of OPM Director Kay Coles James, I am pleased to provide the Subcommittees with an overall assessment of the state of the Federal workforce. I have a rather lengthy written statement, and with your indulgence, I will gladly summarize.

So, where do things stand today, some 2 years after GAO first put the Federal workforce on its high-risk list? Back then, almost all the news was bad. We saw an impending retirement wave which threatened a debilitating brain drain as well as the risk of outstripping the capacity of agencies to find skilled applicants to take their place.

Now there is some good news to report. While the number of retirement-eligible employees remains high, we haven't seen the mass exodus that was predicted. Indeed, separation rates have declined. Further, our recent human capital survey showed that over 90 percent of our employees think that their work is vitally important, and a similar percentage said they believed their work contributes to their agency missions. Hence, the importance of the President's Management Agenda and its priority in placing the strategic management of human capital as first on the list.

The President directed OPM to take the lead responsibility for assessing how well the departments and agencies managed their most vital asset—their people. We measure our success by the progress agencies make in placing the right people in the right jobs and managing them in ways that help achieve mission goals.

OPM, the Office of Management and Budget, and GAO collaborated this past year in adopting the "Human Capital Standards for Success"[2] to help agencies address their human capital management more strategically. These are the standards we use to score agency performance each quarter, and the scoring process has eliminated agency efforts to better manage their workforces. As a result, most agencies recognize the need to assess the strategic value of their position and the competencies required to perform that function. Managing the workforce effectively is recognized as a means to achieving mission goals.

To aid the agencies, OPM developed a human capital and accountability framework to help agencies better understand exactly what we are looking for when we are assessing them. We use it as a tool in assessing the agencies as well as making it widely available as a self-assessment tool. This shared framework has made our discussions more focused and more productive.

While red scores still predominate on the scorecard, the scores reflect the need for agencies to operate better. Agencies spent their first years concentrating on linking human capital practices to mission results. Workforce planning strategies are being used to identify and anticipate skills gaps, and agency leadership is taking ownership of the initiative. Aligning human capital strategies with

[1] The prepared statement of Mr. Blair appears in the Appendix on page 97.
[2] The information referred to submitted by Mr. Blair appears in the Appendix on page 109.

departmental mission goals has been challenging, yet progress has been made.

While green is the ultimate goal, achieving yellow status indicates significant progress. Agencies that have shown progress include the Department of Energy and the Department of Labor for successfully linking performance expectations for managers to agencies' strategic plans and mission objectives. Their performance appraisal systems are designed to make meaningful distinctions by rewarding high performance. Other agencies have also shown improvement in workforce planning, identifying competencies for mission-critical occupations, and other human capital strategies.

Just as the GPRA, Government Performance and Results Act, directs agencies to track organizational performance, we believe the government must adopt compensation practices designed to spur and measure individual employee performance. Indeed, performance-oriented pay is embraced by the merit system principles which call for appropriate incentives and recognition for excellence in performance.

To bolster these efforts, the administration has proposed allocating $500 million to the new Human Capital Performance Fund to allow agencies to give extra pay raises based on an employee's superior performance or possession of skills critical to the agency's mission. The Fund provides an incentive for agencies to begin making meaningful distinctions in and rewarding superior individual performance.

While progress is needed in developing robust performance appraisal systems, the Departments of Energy and Labor show it can be done. Further signs of progress can be found in last year's Homeland Security Act, which included a number of significant governmentwide human capital reforms. Thank you, Mr. Chairman and Members of the Subcommittees, for work that you performed in obtaining enactment of those very important legislative initiatives.

Included in these reforms were the ability for agencies to replace the rule of three with category ranking and hiring assessment and for limited direct hire ability for critical and shortage occupations. Further, the workforce shaping tools of voluntary early retirement and governmentwide buyout authority will help agencies address skills and balances.

The most attention, however, will be paid to the actions of the OPM Director and the Department of Homeland Security Secretary in designing new pay and personnel systems to bring together the employees of the 22 agencies that now make up the Department of Homeland Security.

Your letter of invitation also asked that we address specific legislative proposals. First, I am pleased to report that OPM supports many of the provisions of the Federal Workforce Flexibility Act of 2003, S. 129 and H.R. 1601. We recognize that the proposal builds on the Managerial Flexibility Act from the last Congress, and we look forward to working with you in the Congress on this important legislation.

We also look forward to working with you to refine the proposed Senior Executive Service Reform Act of 2003, noting that the basic

features of the proposal were included in the President's budget for fiscal year 2004.

Again, thank you for your leadership and the opportunity to address these important issues. I am pleased to answer any of your questions.

Senator VOINOVICH. Thank you very much, Mr. Blair.

OPM's recent human capital survey of Federal employees pointed out something that was rather astonishing to me, and that is that only 27 percent of Federal employees feel that poor performers are dealt with. As you know, S. 129 and H.R. 1601, the Federal Workforce Flexibility Act of 2003, includes a provision to provide special training to managers to help them deal with poor performers. I suspect, however, that legislation alone will not solve the problem.

I would like to know what you have done across the board to provide managers with the tools, resources and knowledge to effectively handle poor performers.

Mr. BLAIR. Well, I think training, as you recognize, is a very important component of any performance management system, and training in government oftentimes has lagged behind what our expectations should be.

Given that, the Director is very committed and has put forth in the scorecard efforts ways of rating and ranking the agencies—not ranking, but rating the agencies in terms of what they are doing in performance and what they are doing to train managers to perform better.

This is extremely important if we are going to have a successful performance management system.

Senator VOINOVICH. Well, you heard the testimony from David Walker. The administration is talking about going forward, and if you have only 27 percent of Federal employees that feel that poor performers are being handled properly, how in the world can you possibly go to a new system that is going to provide pay for performance across the Federal Government?

Mr. BLAIR. Well, let's recognize that right now our pay systems have very little performance component to it. There is very little incentive for agencies or for managers to exercise vigorous performance management because we don't back it up with real money or real dollars. The creation of the Human Capital Performance Fund actually puts real dollars behind what our efforts will be and says that we want you to rank your employees, we want you to look at individual performance and assess it accordingly, and if you are performing in a superior manner, we are going to pay you for it. Our systems don't allow us to do it right. There is no incentive to do so.

Senator VOINOVICH. Well, you heard the testimony from David Walker talking about the effort that they made in GAO to get ready for pay for performance, and then his comments about the posibility of conducting some demonstration projects to test this concept in other agencies. And we were just talking about the Senior Executive Service. The general opinion is that across the board, apart from the SES, there is no infrastructure in place to really do pay for performance. And what I just heard from you is that if we simply provide this additional money, all of a sudden, voila, we are

going to have a pay-for-performance system because there will be incentive for it.

The President has announced this initiative. I would like to know specifically what do you have in place to handle this system in the event that it would become a reality.

Mr. BLAIR. Well, we have this scorecard process in place in which we are assessing agencies on how well they perform performance management. It is a key component in an agency's effort to get from red to green. We are in the process of doing that.

In addition, the Homeland Security Department last year, in order for agencies to raise the total aggregate compensation cap, they were asked to—OPM and OMB were asked to develop regulations in order to certify the agencies can make those meaningful distinctions. So processes are already beginning to be in place, but you have to remember that in order to move to a system like this, you have to provide the incentive.

The Human Capital Performance Fund doesn't jettison the General Schedule. The General Schedule remains in place. Step increases remain in place. And the President has also provided 2 percent across the board. And so it builds on the present General Schedule system.

However, we strongly believe that we need to put more than just words behind our efforts at better performance management, and that is why we say let's dedicate some real dollars to it. And that is what the Human Capital Performance Fund would do.

Senator VOINOVICH. Well, I would like to see the letters and recommendations to the departments. I would like to see the standards that you have set for whether or not agencies have pay-for-performance systems in place and whatever else you have done to prepare for this, because this is a major undertaking to go forward with it. I have been through it. And unless you have had some real significant training for people in that process, you are setting it up for failures. I guess the suggestion here, and you might carry it back to Director James, is that a lot of us believe—and this is in a bipartisan basis—that we are not prepared to go forward with this system, perhaps even in the Senior Executive Service. We might have to just pick out certain areas in the Senior Executive Service where we have really validated that they do have a real performance-based pay system in place before we would move forward with it.

Mrs. DAVIS. Thank you, Mr. Chairman. I have to agree with you. I almost feel like we are getting the cart before the horse. And I may be wrong on that, but I am anxious to see what you do have in place. And I have a lot of questions here with regard to the $500 million Human Capital Performance Plan, and I am going to submit them for the record because I don't have time to ask them all. But just for instance, the compensation that OPM would allot to the different agencies would depend on the strength of the plan that the agency puts forth, which to me is contrary to the whole performance-based merit system that you are talking about for the individual's work because it wouldn't have anything to do with the individual's work. It has got to do with the plan, the strength of the plan that the agency comes forward with.

And you heard me ask the question to Mr. Walker about the chief human capital officers, and I would be curious if you could get back to us on what OPM has done for guidance, if you have been involved at all with the guidance, and when you expect them to come out.

Mr. BLAIR. We will be putting out further guidance on that. In addition, the legislation calls for the council to be up and running by May 24, I believe, and we are on schedule to meet that deadline.

Mrs. DAVIS. You are. As far as the SES goes, in our hearing last week we heard testimony that they would prefer that—the SES would prefer that we not do a one-band pay schedule, but they would prefer to see something like a three-band. Is it the administration's policy—do you believe that they would be looking at reducing the pay of some of the SES with that one——

Mr. BLAIR. Well, under the proposal as it is written, no member of the SES would receive a reduction in pay the first year. And we certainly are not about in our proposal stripping or taking away current safeguards. We want to make sure that there are safeguards in place, and we believe that we can do so by regulation to ensure against arbitrary and capricious behavior on the part of agency managers.

But let's remember the context in which this proposal is being made. We are talking about pay compression, and we are talking about giving significant raises to members of the Senior Executive Service. The quid pro quo here is that the raises are going to be based on performance and merit, and we need to tell it to the American people that, yes, in order to justify these raises, we can justify them based upon the good performance and that these executives are helping their agencies meet their critical mission goals, and we think that is very important. It shouldn't be across-the-board pay raises.

Mrs. DAVIS. Let me get to an issue that I don't know if you can answer or not, but on the monster.com website, there is a very interesting section on diversity and inclusion. It mentions that in 2001 women earned 76 percent of what men earned, according to the Bureau of Labor Statistics. Further, it mentions that though the gap has been closing, it is still a reality in the American workplace. This has been attributed to the fact that most women do not negotiate their compensation, though they are better at negotiating for others than they are for themselves.

Does the Federal sector have as abysmal a record as the private sector in the pay gap area for women? And if not, has this been indicated in the recruiting materials that are available to potential hires, not just the equal opportunity information that you have to give?

Mr. BLAIR. I believe GAO may have done some work on this issue back in the late 1980's and early 1990's in looking at female-dominated occupations. I can't exactly remember the work they did in this area.

I do know that in the Federal Government we have an abundance of what we call internal equity within our system, and that means that we look at the job and we pay the job according to not who you are but on what you do. And so we can provide for the

record information on what the pay gap—if it exists in the Federal Government, what that would be, and for possible reasons for that.

Mrs. DAVIS. I would like to see that diversity across the board, not just women but diversity totally, because I do hear from folks that we just don't have enough in the Federal workforce, and I haven't seen any reports on it so I can't speak to it.

Thank you, Mr. Chairman.

Senator VOINOVICH. Congressman Davis.

Mr. DANNY DAVIS. Thank you, Mr. Chairman.

Mr. Blair, you began your testimony with the good news that there had been a decline in separation from what was projected 2 years ago. Has there been any effort to determine why this declination is occurring beyond the fact—I mean, you did mention that the economy had been flat and that may have had some impact. But has there been any effort to determine other factors that may have attributed to this decline?

Mr. BLAIR. Well, I think we can look at the events of September 11 and people realizing the work that they were doing was important, and it contributed to the agency's mission. We saw in the human capital survey that overwhelming numbers, large numbers of Federal employees believe that the work that they did contributed immensely to the work of their agencies.

So I think that is good news, and projecting retirement rates in the future always has an element of chance to it. A flat economy means that there aren't the opportunities out there. However, the flip side of that is that once the economy starts to become robust again, are we going to find ourselves facing a huge retirement wave? And one of the things we did also find out in our human capital survey is that we don't do a good job in government of rewarding good performance. And so those are some of the things that we are trying to change in government.

I think things have improved for the better over the last 2 years. The attention that the House and Senate have paid to this issue, the attention that GAO has paid to this issue, the President's Management Agenda listing the strategic management of human capital as first on the list, I think all put together it spells good fortune for us.

That said, we have a long ways to go, and we are working hard making sure that we have further improvements.

Mr. DANNY DAVIS. Mr. Walker in his testimony stated that OPM plays a central role in helping agencies tackle the broad range of human capital challenges. Are the agencies coming to OPM seeking guidance and really asking for your assistance, help, and direction?

Mr. BLAIR. We are going out there and giving it. We recently restructured at the Office of Personnel Management, and effective March 1, we have an OPM which is structured with the intent to more effectively deliver our goods and services to our customers. And we view chief among our customers as the agencies and departments that we serve.

We have a new division for Human Capital Leadership and Merit System Accountability which is the driver of the President's scorecard. At the same time, they are also the ones out advising agencies who are seeking help on better ways to effectively manage their human capital.

Mr. DANNY DAVIS. So you are saying you are going out to them more than they are coming to you?

Mr. BLAIR. We are going out to them and they are coming to us. As a matter of fact, we have had requests in over the past year to the Director from different agencies on specific HR issues, and we have sent out strike forces to the agencies to help them address those in terms of hiring or in terms of performance management. And so it is a two-way street. We see the communications as improving, and that is what we are there for, is to help them improve, to better improve their performance.

Mr. DANNY DAVIS. Does OPM have its own performance management system in place?

Mr. BLAIR. Yes, we do. We have a performance management system in which we evaluate our executives. In addition, I am the second-level review on a number of employees' evaluations, and so employees are given their expectations at the beginning of the year; mid-year, managers get back with them to tell how they are doing. Keep in mind, however, that managers and supervisors and frontline employees are constantly in communication, and so if there is a particular problem or a particular success, that may be followed up in writing. In addition, at the end of the year, evaluations are given at that time.

Mr. DANNY DAVIS. Let me just ask you, the administration indicated that it wanted to contract out 850,000 Federal employee jobs and diminish collective bargaining in some instances.

Do you see this impacting one way or the other the ability to recruit the human capital that we need?

Mr. BLAIR. Well, I think to perform effective outsourcing, you are going to need to have in place good contract managers. If you are going to be involved in labor negotiations and labor relations, you need to have people who are skilled in labor-management, skilled in backgrounds associated with labor-management relations.

We are open for employment at the Federal Government. As far as competitive sourcing is concerned, those are issues that are best addressed by my colleagues at the Office of Management and Budget. However, I know that is being done pursuant to the FAIR Act, which asks that agencies identify those jobs which are not inherently governmental. And so this is the atmosphere in which we are operating, and I think that we are doing a good job. We are doing a good job of making improvements, and we want to keep on that track.

Mr. DANNY DAVIS. Thank you very much.

Senator VOINOVICH. Delegate Norton.

Ms. NORTON. Thank you very much, Mr. Chairman.

Mr. Blair, I need to know where you come down on the GAO testimony that we have just heard. You heard Mr. Walker—and I am going to look directly now at his testimony and report—that he apparently agrees with the administration, and I am quoting from him, "We must move beyond this outdated, one-size-fits-all approach to paying Federal employees," etc.

Then he says, "However, agencies should be required to demonstrate to OPM's satisfaction that they have modern, effective, credible, and validated performance management systems before

being able to adopt broader pay-for-performance systems for non-SES personnel."

Now, do you agree that should also be the case for SES personnel as he testified?

Mr. BLAIR. Well, we have performance management to a better degree in the SES, but what the President proposes to do is to say that future pay raises for the SES will be performance-based. Remember, the Senior Executive Service is comprised of approximately 7,000 individuals in a workforce of 1.8 million people. It gives us a better laboratory, if you want to use a better word, so to speak, in which we can really implement a pay-for-performance system.

Ms. NORTON. But you agree there should be a validated system of accountability before pay for performance?

Mr. BLAIR. I am not sure what we mean by "validated." Is that certified or——

Ms. NORTON. I asked him what "validated" meant. Were you here when I asked him what "certified" meant? And he is going to leave it to you, if you listened to him, to indicate what "certified" is. So if you don't know what it means, that really makes me wonder whether or not we are going to be——

Mr. BLAIR. Well, that is why I wasn't using those terms. Let me just——

Ms. NORTON. What terms would you use, Mr. Blair?

Mr. BLAIR. Well, I would say that we can certainly develop within a regulatory scheme a performance management system which can effectively guide agencies in the way that they evaluate and compensate their Senior Executive Service.

Ms. NORTON. But you are using this system as a kind of demonstration project for the entire Federal workforce. You are seeing if it works here, and then you are going to take as much of it as you can and apply it to the Federal Civil Service System if you can.

Mr. BLAIR. Well, I would almost say—I would be stronger than that in saying that if we can't effectively do it for our senior executives, then it doesn't bode well for the rest of the workforce in applying performance management principles.

Ms. NORTON. So it is a test case, it is your pilot project.

Mr. BLAIR. It is a foundation.

Ms. NORTON. Given the state of the Federal workforce today, my colleague just indicated we had to fight—the Chairman has talked about pay for parity, had to fight to get it in the last budget, the retirements, the difficulties with recruitment. If you look at the Civil Service Reform Act of 2003, in order of priority which do you think should come first: Increasing the pay gap, dealing with the pay range, or pay for performance?

Mr. BLAIR. I kind of feel like you are asking which of our children is our most favorite. It is——

Ms. NORTON. In other words, you regard them as of equal importance to do——

Mr. BLAIR. I think that they are all equal at this point. We want to be able to work with the Committees in both the House and the Senate to see that we can work towards these reforms. I am not prepared at this point to identify a priority because things may change in the next few months. But I think that it shows—the in-

troduction of this legislation at the hearing today and hopefully continued progress on this front shows Congress' continued commitment to improving the way that we effectively manage our workforce.

Ms. NORTON. Well, one of the things you have to do is put yourself in the place of the workforce you are talking about, and if you are talking about taking the pay cap off, before you even talk about that, you are talking about giving increased pay to only a relatively small number of people. One might want to consider the effects on the workforce itself, not simply what——

Mr. BLAIR. Well, let's remember the context in which that is being proposed though: That executive pay has been linked to congressional pay over the years, and when Congress has denied itself a pay raise, it has effectively capped the top rates for the SES. The result has been over the years that the six levels have been compressed, and in a number of the localities around the country many levels are being paid at the same rate despite varying degrees of difficulty and responsibility.

That is the reason for the SES pay proposal, is to more effectively manage the SES through the use of pay, and by making those distinctions.

Ms. NORTON. I can understand that, and, of course, that is a real problem that we have to deal with, and I couldn't agree with you more.

I am going to ask you if you would write to the Chairman, considering your answer to me, on a certified performance management system, what the OPM regards as certification so we can be clearer on validation and certification.

Mr. BLAIR. Certainly.

Ms. NORTON. Finally, let me just say, Madam Chairman, I am on the Select Committee on Homeland Security, and I see you have at page 13 of your testimony, I think quite appropriately, a discussion of what you are having to go through to design a new pay and personnel system, as you say, to bring together the employees of the 22 agencies that now make up the Department of Homeland Security. I do not envy you.

Let me ask you, in light of that, wouldn't you at least recommend that you put off dealing with SES pay on top of all the pay problems you are going to have to deal with in bringing 22 agencies together. Do you think all of this should be taken on at one time plus pay for performance in this new agency?

Mr. BLAIR. I think it is incredibly important that we take on the two proposals that I mentioned, and we will meet all our statutory obligations required under the Homeland Security Act.

We can't allow other pressing issues to remain an excuse for the status quo, and the status quo is that we, in the past year, have awarded over $5 billion in an across-the-board pay adjustment of which performance was not a component at all. I think that is inexcusable, and I don't find a way to justify it. Neither does the administration. And so that is why we are proposing to move aggressively in incorporating pay-for-performance proposals across the board. We would like to do it for the SES, and we would like to do it by virtue of enactment of the Human Capital Performance Fund.

At the same time, we are moving aggressively forward in meeting our responsibilities in homeland security. As I said, as we meet today our design team is meeting at OPM in hammering out these very important issues.

Ms. NORTON. Thank you, Madam Chairman.

Mr. BLAIR. Thank you.

Mrs. DAVIS. Mr. Van Hollen.

Mr. VAN HOLLEN. Thank you, Madam Chairman.

Just to follow up on this issue of to what extent the Executive Branch is prepared to move forward with pay for performance in terms of performance appraisal and evaluation systems, you single out in your testimony two departments—the Department of Energy and Department of Labor. Getting back to Congresswoman Norton's question about validation, are those two performance systems that you have evaluated them and you determined that they meet whatever criteria you set forth? Is that right?

Mr. BLAIR. We have looked at the Department of Labor, and they have done a good job at better linking performance expectations for their managers to the strategic plans. This is really a follow-on to the efforts that were first identified in the Government Performance and Results Act in which we asked agencies to identify their mission goals and to evaluate how well they are doing it.

Really, the next step in this is to have that cascade down through an agency and making agencies link their senior executives and have them link their goals to the overall agency mission and strategies, and from there to carry that down to the front-line agencies as well.

Mr. VAN HOLLEN. Right.

Mr. BLAIR. And to evaluate that, and that is what we would like to do. That is our intent, and we see some agencies making progress in that area, specifically the Department of Labor and the Department of Energy.

Mr. VAN HOLLEN. OK. But as I understand it, you singled them out really for that first part then, linking their agency mission with different personnel decisions.

Mr. BLAIR. Exactly.

Mr. VAN HOLLEN. Not the next step, which is the individual performance pay appraisals. Is that right?

Mr. BLAIR. They appear to have done a good job of linking their senior executives, but the front-line managers, they are still in the process of doing that.

But remember that under the current system we don't have incentives for agencies to do that, and we talked earlier about are we putting the cart before the horse. Well, you need to put the carrot before the horse in order to get the horse to move, and that is what we are trying to do with the Human Capital Performance Fund.

Right now, if an agency doesn't have an incentive, if there is no incentive existing to have a robust performance management system, then why will agencies do it other than being told that they have to do it? One of the best ways of incentivizing organizations like this is to put real money with real results and real actions behind it, and that is what we are trying to do. Again, we didn't jettison the current pay structure for Federal employees. The General Schedule remains in place. Step increases remain in place. Given

that, however, we are saying if you possess skills of immense value to your agency, if you perform admirably at your job in a superior fashion, the current structure of classification doesn't allow you to move from a GS–14 to a GS–15 because what you are doing is still at the skills level of a GS–14, but you are doing it in a very exemplary way, why don't we reward you? And our current system doesn't allow us that flexibility. The Human Capital Performance Fund would.

Mr. VAN HOLLEN. Let me just follow up, Mr. Chairman, then I will finish. It seems to me we would want to have at least in place the performance criteria for everyone to look at, to become comfortable with before you take the next step, which is to make the linkage between the pay, and I think you said that it is a terrible thing we haven't moved in this direction, but it seems to me the administration has a lot of flexibility and leeway to do a lot of this on its own without passing legislation. If you wouldn't mind, if the Chairman wouldn't mind requesting, I would be very interested in you providing the Committee information as to what performance criteria the Department of Labor and the Department of Energy have in place that you think provide a model, as I understand it, for the rest of the Federal agencies.

Mr. BLAIR. We will be happy to provide that.

Mr. VAN HOLLEN. I would be very interested in seeing that, if you wouldn't mind, Mr. Chairman. That is all. Thank you.

Mr. BLAIR. Thank you.

Senator VOINOVICH. Mr. Blair, you, I think, heard from all of us that there is a little skepticism about going forward with pay for performance, and I think that it would be wise for you to carry that message back. In fact, I am going to be sending a letter off or calling Kay and talking to her about this. Unless there is some major effort made to identify next steps and a more complete plan, this is not going to happen this year. I hope that came across to you, and I know that you have got this goal in mind, but we don't think agencies are ready. And I think at this stage of the game it would be good to drop back and put together what the plan is. Even for the Senior Executive Service, there is some issue about whether or not they have a verifiable system in place. What are there, 8,000 or 9,000 members in the Senior Executive Service?

Mr. BLAIR. Roughly 7,000.

Senator VOINOVICH. Yes, that they in some instances in some of those agencies there are not real pay-for-performance systems in place. So it is a question of identifying agencies that are ready. Maybe we need to conduct some demonstration projects on this. If you feel that the Department of Labor and some others have a good system in place and they are ready to do this, perhaps those could be appropriate demonstration projects. That is just a little humble recommendation that you ought to fall back and regroup the troops on this and maybe come back with a different proposal.

Mr. BLAIR. Well, I want to emphasize that our concern is that we don't maintain the status quo, that the status quo is unacceptable in terms of awarding $5 billion in pay raises, none of which are performance-based, or that you have your top executives all making the same amount of money and you can't use your most strategic tool, which is pay, in order to recognize differentiations in perform-

ance levels. I think we are all on the same scorecard—not scorecard—song sheet there, and we will work with you. But I can't overemphasize that we think that more progress needs to be made on the human capital front. I know that you agree with us on that, and that we want to begin taking the next steps of incorporating performance as a key element in the way we pay our employees.

Senator VOINOVICH. Well, one of the provisions of the bills that we have creates broadbanding of the Senior Executive Service which would provide a lot more flexibility and enhance the whole concept of pay for performance. But I think the worst thing that could happen is to get started with this thing, and then have it become a disaster to which everybody points and says, "I told you so, it wouldn't work." For those of us that have been through the mill—and I have on a couple of occasions as mayor and governor—this is something you really have to spend a lot of time on to do it right.

Thank you very much for coming here today.

Mr. BLAIR. Well, thank you, sir.

Mrs. DAVIS. Mr. Chairman.

Senator VOINOVICH. Yes, I am sorry.

Mrs. DAVIS. I would just like to make a comment. Being a horsewoman myself, if you give that horse the carrot and you don't hook the cart up properly, you have a problem. [Laughter.]

Senator VOINOVICH. OK. Thank you very much.

Mr. BLAIR. Thank you very much.

Senator VOINOVICH. Our third panel of witnesses is composed of four individuals who represent the interests of Federal employees at a variety of levels. During the past few years, I have worked closely with these and other Federal employee groups to ensure that their voices are heard in the debate over personnel reform. During my 18 years as Mayor of Cleveland and Governor of Ohio, I developed a firm belief that in order to have reform truly take root in any organization, the front-line employees must be involved in the decisionmaking process. This kind of employee empowerment is essential at the Federal level as well.

Our witnesses are Bobby Harnage, National President of the American Federation of Government Employees; Ms. Colleen Kelley, President, National Treasury Employees Union; Ms. Carol Bonosaro, President of the Senior Executives Association; and Ms. Karen Heiser, Treasurer, Chapter 88, of the Federal Managers Association.

We are pleased to have all of you here today. I think you have all been here to hear the other witnesses' testimony, and my feeling is that, in terms of pay for performance, we have really given it a whole lot of attention. If in your testimony you want to mention it, that's fine, but I sure would like to hear what you think about these three pieces of legislation that we have introduced, because we have pretty much spent all of our time on pay for performance.

I will now call on Bobby Harnage. Bobby, we are glad to have you here with us today.

TESTIMONY OF BOBBY L. HARNAGE, SR.,[1] NATIONAL PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES

Mr. HARNAGE. Thank you. It is my pleasure. I appreciate the invitation. On behalf of the more than 600,000 Federal employees represented by AFGE, I thank you for the opportunity to testify today.

I will focus my remarks on two items. The written testimony, as it goes quite in detail on your question, so I will deal with two items, the provisions of the bills providing various expansions and managerial authorities, and the larger issue of how to resolve the government human capital crisis.

Federal employees will view these legislative proposals from the vantage point of a workforce under siege. The administration is pursuing an aggressive policy of mandatory privatization quotas aimed at up to 850,000 jobs. It is not only ignored but constantly criticized for principles of comparability that is supposed to go in Federal pay. It has tried to define the traditional civilian/military pay parity three times at the same time that it has reintroduced big bonuses for political appointees and proposed letting management spend 20 percent of the meager amount set aside for salary adjustments any way it wants.

The administration has stripped various Federal workers of their collective bargaining rights, and insisted on taking away five chapters of Title 5 from the law that covers Homeland Security. Finally, they have questioned the patriotism, loyalty, and love of country of the members of my union. Will the authority to pay slightly bigger recruitment and retention bonuses to a few lucky employees and embark on a huge demonstration project undo these unmistakable messages of hostility and encourage new people to come build a career at Federal agencies? Not likely.

Allowing larger bonuses and demos and streamlined critical pay is not objectionable unless one considers the proposals in the context of either solving the self-inflicted human capital crisis or the more pressing needs of Federal employees and agencies. We believe that the financial incentives for recruitment and retention in the legislation are at best incomplete and at worst misplaced. Salaries are too low, not just for prospective employees or for employees who threaten to leave if they do not get a bonus. Salaries are too low for all Federal employees.

There is a law on the books that will solve the pay problem. It merely has to be enforced and funded. FEPCA, passed just over a decade ago, introduced a very long list of pay flexibilities—and I list those in my testimony—in spite of the insistence of today's would-be reformers that it is a rigid or inflexible system. Indeed, FEPCA introduced the existing recruitment and retention bonus authority that has almost never been used because it has never been funded. The legislation also takes the limits off the number of workers covered by demos. AFGE strongly opposed this measure. It effectively allows entire agencies to be under alternative to Title 5. It has taken away congressional right to approve such changes. It also undermines the very idea of demos, since without limits on

[1] The prepared statement of Mr. Harnage appears in the Appendix on page 113.

the number of workers they cover, there will not be an adequate baseline against which to compare the outcome of the demos.

We support the provisions of the legislation that provide training for managers and other employees. We applaud the recognition that failure to deal with poor performers is not a matter of any absence of authority, but rather a problem of either reluctance or poor training. Further, it recognizes dealing with poor performers as a management problem and a discipline problem, not a pay system problem.

It is well known that DOD is shopping legislation that will allow it to waiver parts of Title 5 and impose a pay-for-performance system on its workforce. They are eager to get these authorities before the outcome of the grand experiment at DHS is done. Federal employees recognize these efforts as hostile to their interest and understand that DOD pay-for-performance schemes will require substantial financial sacrifice for them and their families. The government human capital crisis is not like the weather. It did not just happen. It was a result of misguided policies, and a reversal of those policies is what is necessary to solve it.

To that end, AFGE recommends the following: Require full funding and implementation of FEPCA's comparability provisions as a trigger for the exercise of the expanded bonus authority in the proposed legislation; enact legislation that would put an end to privatization quotas that would guarantee Federal employees the chance to compete in defense of their jobs, and that would prohibit OMB's controversial rewrite of A–76 to go forward; pass legislation already introduced in the House and the Senate to improve the funding formula for Federal employees' health insurance; resist the temptation to jump onto anti-employee pay-for-performance bandwagon whether for DOD, DHS, or any other Federal agencies or department. Pay for performance is a recipe for mismanagement, discord and discrimination, and will undermine the merit system principles.

This concludes my testimony, and I would be glad to answer any questions you might have.

Senator VOINOVICH. Thank you. Ms. Kelley.

TESTIMONY OF COLLEEN M. KELLEY,[1] NATIONAL PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION

Ms. KELLEY. Thank you, Chairman Voinovich, Chairwoman Davis and Members. On behalf of the 150,000 Federal employees represented by NTEU, I appreciate the opportunity to appear before you today.

The message often received by today's workforce is that they are not valued. Many believe their pay is inadequate, but they do not see a fair pay setting process on the horizon. Based on experience, they believe their agencies will not receive sufficient funding for training. They also know that on any day their jobs may be contracted out from under them. It is no wonder the government has a hard time recruiting and retaining employees.

Although the fiscal year 2003 Federal pay raise was recently settled, it came only after a very long and public fight that again sent

[1] The prepared statement of Ms. Kelley appears in the Appendix on page 144.

the wrong message to the Federal workforce. Today is April 8, 2003, and the full 4.1 percent pay raise that employees should have received in January has still not arrived in Federal employee paychecks. There is no question again as to what message this sends.

In its 2004 budget, the administration continues to show a lack of concern for what failure to properly compensate public employees means for the future of public service. Ignoring bipartisan calls for pay parity, the administration recommended a 2 percent Federal pay raise. The message again that this sends to civilian employees, even to those on the front lines of securing our Nation's borders, is that their work is not as important, not as valued, and not as vital as that of their military counterparts.

Instead of pay parity, the administration proposes a $500 million human capital performance fund. Funding for this gimmick comes at the expense of the 2004 Federal pay raise, and would give managers unfettered discretion to give incentive pay to a fraction of the Federal workforce. Benefits, too, are key to the government's ability to attract and retain the workforce.

The Federal health program is in crisis. This year's 11 percent premium increase marked the fifth year in a row of steep rate increases. Many employees have been forced to give up their health insurance and those considering employment with the Federal Government are turned off. Private sector employees continue to pay on average less for their health insurance in terms of percent of premium and in terms of cost.

Employee training is another critical piece of the pie. Unrealistic funding levels have restricted the ability of agencies to adequately train their employees to perform their missions effectively. Without proper training everyone loses. Customers do not receive the best service and employees do not find their work rewarding or challenging.

The administration's march to contract out 850,000 Federal jobs through arbitrary quotas is another disincentive to Federal employment. One-size-fits-all quotas are being forced down agencies' throats without thought to their impact on the government's ability to recruit and retain employees. Employees have told me that the message their agencies convey is this: We may hire you; we may train you; we may even promote you; but when it comes time to meet our contracting out quotas, we may eliminate your job in order to meet our targets. These blind quotas erode the morale of the Federal workforce and disrupt agency operations.

With regard to S. 129, the Federal Workforce Flexibility Act of 2003, NTEU is not opposed to the use of demonstration projects. We believe, however, that the collective bargaining process must be used to ensure that both management and employees understand the nature of the project and are committed to its success. The legislation also proposes the expanded use of bonuses. Expanding the availability of these incentives makes little sense without the resources to accomplish the goal, and, NTEU has concern about expanding critical pay authority. NTEU believes that properly compensating the Federal workforce would make further critical pay authority unnecessary.

We welcome provisions drawing attention to the government's need to properly train its employees. Again, however, the bill does

not address the resource problems that have prevented agencies from providing training to their employees. Proposals to enhance annual leave for certain new Federal employees need further review. If Congress believes that annual leave limits are a barrier to hiring, then the system should be reformed for all employees.

In summary, NTEU thinks the messages we must send employees are these. We want you to come to work for the Federal Government. We want you to be successful. We want to appropriately compensate you for what you do. We value what you do every day for the American public, and we want to treat you with the dignity and the respect that you deserve. I, and all of NTEU look forward to working with all of you in the House and the Senate toward this end.

I thank you again for the opportunity to appear today, and would be glad to answer any questions you might have.

Senator VOINOVICH. Thank you. Ms. Bonosaro.

TESTIMONY OF CAROL A. BONOSARO,[1] PRESIDENT, SENIOR EXECUTIVES ASSOCIATION

Ms. BONOSARO. The Senior Executives Association appreciates both the invitation to testify and the Subcommittee's interest in and concern for Federal human capital management. We are especially grateful to Senator Voinovich and Representative Tom Davis for their legislative efforts to address civil service issues, both in this and the last session.

We welcome the proposal contained in the President's budget with regard to SES compensation because this is the first time in 10 years that an administration has addressed this issue. That proposal and the Senators' bill can alleviate pay compression which has reached the point, as you know, where 70 percent of all career executives are now paid the same. We look forward to resolving this issue indeed after many years of effort.

What we seek, however, with regard to executive pay, is stability, so we need not keep returning to this issue as we have over 20 years, and due process rights for career executives to ensure that the merit system is protected. Thus we recommend some tweaking, if you will, to ensure that the administration's and the Senators' proposals meet these objections. I think particularly because of the view of the SES as a proving ground, it is especially important that we maximize the possibility, the likelihood of success of pay for performance, and minimize the possibility of, for example, politicizing the career executive corps. The safeguards must be in the statute, not just in regulations.

Specifically we recommend that you eliminate the cap on locality pay so that executives can receive the full locality pay adjustments and we prevent further pay compression based upon the new locality cap; that you reform the Homeland Security Act language which calls for certified performance systems so that only OPM and not OMB promulgate the implementing regulations; that once certified, certifications cannot be removed for a 4-year period; that if an agency loses its certification, pay that was set while the system

[1] The prepared statement of Ms. Bonosaro with attachments appears in the Appendix on page 155.

was certified will not be reduced; and the certified system cannot force a distribution of performance ratings. I think that is especially important. It is only fair that each individual executive be evaluated on his or her merits and accomplishments, and not on the basis of some normal curve.

We recommend that you include all bonuses and awards for executives in the high-3 computation for retirement annuities, thus creating a true pay-for-performance system; provide that SES and all equivalent executives automatically receive the same annual increase to base pay that the General Schedule receives each year regardless of the cap. Such annual increases should not be at the sole discretion of supervisors. Raise the base pay cap each year by the amount of the annual comparability increase, irrespective of what Congress does for its own pay or that of the Executive Schedule; replace the wide proposed SES pay range with three overlapping pay bands; the lowest base pay within band one would be the current minimum for ES–1, an amount sufficient to give a reasonable pay raise to a GS–15/10 promoted into the SES. And executives would receive promotions to pay bands two and three based on demonstrated capabilities, attained executive experience and level of responsibility. Pay band three would be set so that its highest base salary is Executive Schedule 3.

Finally, we would like you to require the following safeguards on SES pay: Establish a minimum pay increase of at least 5 percent for those promoted from the General Schedule into the SES—that would then become the executive salary floor; provide executives denied a salary increase for performance reasons the opportunity to appeal to their agency Performance Review Board under the same process used currently for appealing performance appraisals—the boards would be required to have a majority of career members; limit any reduction in pay within a pay band only to reasons related to conduct or performance, and to an amount not more than 3 percent of base pay in any calendar year; provide executives the opportunity to appeal pay reductions based upon performance to the agency's Performance Review Board, and those based upon conduct to the MSPB; finally, provide an executive who is demoted to a lower pay band the right to an MSPB appeal.

Even with these recommendations, however, we have one overriding concern. That is, if agencies have total flexibility to set base pay, pay rates may inevitably be influenced by budgetary considerations, namely insufficient funds for appropriate raises. FAA executives have already experienced that situation. In tight budget times their performance based system has not been funded and awards not paid, while annual increases in awards remain funded for lower-level employees. What will you do to ensure that result is not repeated across the entire Senior Executive Service corps?

In closing, we hope to work with the Subcommittees and the administration to implement these recommendations. We surveyed our members about the administration proposal and provided the Subcommittee with a compilation of those comments which I will appreciate being placed in the record along with my full state-

ment.[1] Those observations from the government's highest ranking career employees express substantial concerns with regard to the administration's proposal, concerns which we think can be addressed with the reasonable changes we recommend.

And finally, we also hope to work with the Subcommittees for full consideration of our other proposals which are detailed in my full testimony. Thank you.

Senator VOINOVICH. Thank you very much for being here. Ms. Heiser.

TESTIMONY OF KAREN HEISER,[2] TREASURER, CHAPTER 88, FEDERAL MANAGERS ASSOCIATION

Ms. HEISER. Thank you, sir. Chairman Voinovich, Chairwoman Davis, Members of the Subcommittees, my name is Karen Heiser. On behalf of the 200,000 managers and supervisors in the Federal Government whose interests are represented by the Federal Mangers Association, thank you for inviting us to present our views at this very important joint hearing regarding the human capital challenges facing the Federal Government.

I am currently the Organizational Development Manager at Watervliet Arsenal in New York, the U.S. Department of the Army. My statements are my own in my capacity as a member of FMA, and do not represent the official views of the Department of Defense or the Army.

The inability to make public sector more attractive has made it increasingly hard for the Federal Government to recruit and retain the high-caliber workers it needs to sustain a strong civil service. One such deterrent is the scrutiny of Federal functions and the lack thereof for contractor work. While previous administrations have taken credit for creating the smallest Federal Government, the illusive nature of the government's less visible and less accountable shadow workforce of contractors makes it nearly impossible for policy makers to know if the current course of downsizing and contracting out is in the Nation's best interest.

The General Accounting Office listed strategic human capital management across government to its list of "high-risk" areas over 2 years ago. In a recent update GAO noted "Importantly, although strategic human capital management remains high risk governmentwide, Federal employees are not the problem."

As part of legislation creating the Department of Homeland Security, several positive reforms were enacted governmentwide that will help agency recruitment and retention efforts while highlighting the critical nature of human capital planning. On behalf of FMA, I would like to thank you, Chairman Voinovich in particular, for your hard work on the inclusion of these important provisions.

Two specific notes of concern to FMA. It is worth noting that the provision to provide Federal employees compensatory time off for official travel was left out of the final bill. OPM regulations do not permit comp time for credit hours unless travel occurs during working hours. Given that most meetings are scheduled during

[1] The survey referred to appears as Attachment II of Ms. Bonosaro's prepared statement in the Appendix on page 172.

[2] The prepared statement of Ms. Heiser appears in the Appendix on page 190.

work hours, and travel to and from those meetings often takes place outside working hours, FMA asks for reconsideration of this provision.

Another issue of particular concern to FMA is the current statutory cap on overtime pay for managers. Between 1994 and 2001 the nonpostal Executive Branch civilian workforce was reduced by more than 452,000 positions. Much of the reduction was arbitrary and not related to workload. One result of this is overtime. The current cap is outdated and serves as a disincentive to potential and current managers, as those above GS–12, Step 6 are paid less for overtime than for regular work hours, and managers and supervisors often earn less on overtime than the employees they are supervising.

Mr. Chairman and Madam Chairman, you have introduced legislation that would allow managers to use a variety of compensation tools such as recruitment, relocation and retention bonuses, and give agencies streamlined critical pay authority to fill key positions. These are sensible reforms that would begin to address the workforce problems that will only worsen with the forthcoming retirement wave. As an expansion of the direct hiring authority granted to agencies, FMA recommends that full-time equivalent ceilings be made more flexible for agencies to fill highly-needed positions without the burden of arbitrary FTE caps.

Student-loan repayment has long been identified as a recruitment and retention bonus that would help attract and retain high performing employees. FMA would like to see this benefit also extended to those seeking graduate degrees. The "GOFEDS" legislation would increase the student loan forgiveness benefit by relieving Federal employees of the obligation to pay income tax on the money provided by their agency. Thank you again, Mr. Chairman, for your leadership in introducing this bill.

In terms of managing this new approach to human capital, whatever it looks like in its finished version, the numbers and roles of Federal human resources professionals needs to be assessed. Additional training may be necessary to prepare these HR experts to chart future human resources needs and steer personnel and funding accordingly. Often times, however, agencies do not have adequate funding for such incentives, even those that currently exist. Annual appropriations should include additional line items for recruitment and training. The public sector should "walk the talk" in appreciating that the most valuable organizational asset is the workforce itself, and in recognizing that "you get what you pay for."

Agencies must also be prepared to invest in their employees by offering skill training throughout their career. FMA has long recognized the need to prepare career-minded Federal employees for the demand of the 21st Century workplace through its establishment of the Federal Management Institute, FMA's educational arm which sponsors valuable professional development seminars and workshops. FMA recently teamed with Management Concepts to offer the Federal Managers Practicum, a professional certificate program designed for Federal managers, and as the official development program for FMA, the Practicum helps managers develop critical skills and enhance their capabilities.

History has shown that training dollars have been a low priority in many agency budgets. In fact, in the rare event that training is available, those monies are often usurped to pay for other agency priorities. Toward the end of reversing this ideology, FMA supports including a separate line item for training and agency budgets, to allow Congress to better identify the allocation of annual training funds.

The Federal Government must once and for all take the issue of continuous learning seriously. There needs to be a developmental component for every position to facilitate performance management and effective succession planning. For agencies to perform at optimum levels, employees must have clearly defined performance standards. These standards should be directly linked to the agency's mission, customer service goals, and its annual performance plan and/or strategic plan. FMA supports implementing a more comprehensive governmentwide appraisal system, with a pay-for-performance component. Any system adopted must be rooted in long-held merit principles and should not be used to undercut fair and appropriate annual increases for Federal employees.

In conclusion, "do more with less" when less has been based on numbers and not efficiency has eroded the remaining employees' morale and dedication, and the reputation of the Federal Government as an employer. And again, simply put, there are fundamental services that should be deemed core to the government. While calls are heard daily to further examine the performance of employees of the Federal Government, there continues to be silence in response to suggestions that the same level of oversight be focused on its contractors.

Government leaders must now take the side of the Federal employee.

Senator VOINOVICH. Your time is up, Ms. Heiser.

Ms. HEISER. Thank you, sir. I will be available for questions if you wish.

Senator VOINOVICH. Thank you.

Have we made any progress? Most of you talked about FEPCA and outsourcing. The administration has announced its goal of 850,000 jobs for public-private competition, and I suspect that a figure was arrived at by taking the percentages that were originally announced. I was under the impression that there had been some backing off from those percentages, and that the secretaries of the departments were basically told that they ought to shape their workforce without first looking to competition.

Health insurance is another issue that we have talked about. From my observations of the private sector, the cost for employees has gone up a lot more because the Nation's whole health insurance system is out of control. That is a whole other subject, that the system is not working. I know in my State, when we went to HMOs and to another system, we reduced the employee contribution from 12 to 10, and now the governor's talking about increasing it to 20. So that is going on around the country.

The impression that I get is some of the things in this legislation you think are good, but you are kind of reluctant to be supportive of some of it because of what you perceive the administration's atti-

tude is toward Federal employees. Is that it in a nutshell? Does anybody want to comment on that?

Ms. KELLEY. I thought it interesting, sir, that Mr. Blair——

Senator VOINOVICH. What things do you think that they could do rapidly to—besides having honest to goodness dialogue with you on the new Homeland Security Department—help create an environment where you might be more supportive of some of this legislation.

Ms. KELLEY. Well, that would be a good start, and we would welcome the conversation on Homeland Security. But in addition to that, fully funding pay raises, proposing an appropriate pay raise for civilian employees. Just right out of the box that would send a very different message than what has been received recently.

The issue around the human resource performance fund and regardless of what they say, that money is money that can and should have been part of the civilian pay raise that was proposed for January 2004, and the idea that for a change, funding is being provided for a flexibility like this, because that of course is usually the issue, the flexibilities are provided but no funding. So this time the funding is provided at the expense of the civilian workforce and with no criteria or rules around how that money will be distributed.

One of the things that amazes me is they say they need this to reward performance for those who are performing above the acceptable level. They have a lot of other processes in place to do that, that are not used today, one of which is high quality increases or quality step increases, whatever you call them in your agency, HQIs or QSIs. These are raises that every agency has the authority to use. They do not need legislation to do it. They can give these to as many or as few employees as are meeting the criteria, and most agencies are not even using them at the average rate they are being used average across the government, which I understand now is at between 4 and 5 percent of the workforce. And the agencies that NTEU works with, we are working with them to try to get them up to the 4 and 5 percent range.

So they have this tool, and they do not use it, and I have never heard them say it is because it is not funded, although I guess they could say that. But now to see this human resource performance fund created with no rules, and to have money just being able to be delivered by managers with no criteria, no credible performance appraisal system, no infrastructure, no nothing, really adds insult to injury, when regardless of what they say, it was at the expense of the proposed January 1 pay raise.

Senator VOINOVICH. Carol, you commented that the legislation would address the problem of SES pay compression.

Ms. BONOSARO. Well, with the kinds of recommendations we have made as safeguards, we would be, obviously, a lot more comfortable with it. As the administration has noted it would not deal with compression suffered by every executive within the current system, which did not occur because of performance, but rather because of congressional freezes, nonetheless, we are prepared to support that, provided those safeguards are indeed part of it.

Senator VOINOVICH. Do you believe that from your observation over the years, there are adequate, credible performance evaluation

systems across the board? On a scale of 1 to 10, if you looked at them for the 7,000 SES employees, where would you say agencies stand in terms of having adequate performance evaluation systems in place?

Ms. BONOSARO. I would point a couple of things out, I suppose. First, there are a lot of differences across agencies that we are familiar with. That the IRS has gone through the most elaborate process of trying to develop something that is very clear, that relates to levels of responsibility, levels of effort, and that is shared up front with their executives, so they know in the end what they have to do vis-a-vis the bonus system, which is part of SES compensation right now. I understand other agencies, such as VA, for example, have gone through a fair amount of work with regard to their performance systems.

On the other hand we do have just a couple of levels within some of the agency performance management systems, and their appraisals and rating levels are not automatic indicators of how bonuses will be paid. There are separate systems in place.

So it is very different across government, and I think it is very hard to come down and give you a precise answer about where we stand.

Senator VOINOVICH. It would be interesting for me if you would contact your membership at various agencies and provide me with their opinions about where they think agencies stand in terms of managing performance evaluations.

Ms. BONOSARO. We will be happy to do that. We will do a quick survey and turn that around and get that back to you.

Senator VOINOVICH. Thank you. Congresswoman Davis.

Mrs. DAVIS. Ms. Bonosaro, you stated in your written statement I think that you would not support a certified performance appraisal system as a condition for increasing the salary caps unless the bonuses and awards were made a part of the annuity computation, and that without this treatment of the bonuses and awards it would not be, "true pay for performance compensation system." Since awards and bonuses have never been made a part of the retirement computation for employees in or out of the general schedule, why do you believe so strongly that they must be included in the retirement pay to go to pay for performance?

Ms. BONOSARO. We are now placing base pay in the situation that bonuses and awards were previously, in saying it is not going to be automatic that you are going to have an annual adjustment each year. Adjustments have not been automatic in any event, given the caps within the SES, as we know. Their base pay will be at jeopardy and therefore, arguably, I think it is reasonable to say that the work that folks do that enables them to in fact go even beyond that and earn bonuses and awards, would demonstrate that we are really taking the performance business seriously and it will have real meaning to you, and not just in terms of this year, but in terms of your annuity.

Mrs. DAVIS. You also said in your testimony that the regulations on the pay-for-performance process must not come from OMB but must come from OPM. I was just curious what the reasoning is behind this, because do you believe that the President should not have any control in his administration? If you are concerned about

political influence at OMB, I think you would probably have the same thing at OPM. So I am just curious as to why.

Ms. BONOSARO. Yes, we are concerned about that, to be frank. But on the other hand, OPM has certainly got the personnel expertise, and we think they should be left to that job. Certainly the President has exercised authority up until now, it is true, with regard to the pay rates for the SES. But in any event, we think that this is a function that appropriately belongs to OPM and should stay there.

Mrs. DAVIS. Just another quick one, and your testimony led me to a few questions. That is why I am coming to you with so much. You said that if we put this appraisal system, if it is approved, that it needs to be in there for 4 years regardless? I think I heard you right on that. So what if OPM comes back and says that the agency is not implementing it correctly, there is problems. Does that mean that OPM, that we are stuck for 4 years and nothing can be changed?

Ms. BONOSARO. What we are concerned about, I think obviously there is the opportunity for OPM to go to the agency, and given the fact that you have presidential appointees in that agency as well as OPM, presumably they should have some influence to get the system running properly. But in any event, what we are concerned about is that an agency might be viewed as having given too many outstanding ratings in a given year, and see their certification evaporate for that reason alone, to be frank.

Our primary concern is that each executive be indeed judged on his or her merits, and that we do not have that kind of driver. So our view is also that, with the 4 years, that might span administrations from time to time as well.

Mrs. DAVIS. Thank you. I am going to go to my colleague. Ms. Norton.

Ms. NORTON. Thank you very much, Madam Chairman.

I think listening certainly to the GAO and to your testimony, and especially reading it closely, that we should put aside any notion that the employee organizations are simply opposed to any change. Indeed, many of the employee organizations have raised the issue of a human capital crisis generally in the workforce with retirements and early retirements, with problems in recruitment, quite apart from the clear problems with the existing workforce and its own anxieties.

I think the problem we are faced with is how to use an approach that avoids worsening a problem we are trying to fix, and perhaps doing what successful reform generally requires, and that is looking at a win-win approach. The reason I asked Mr. Blair, for example, whether he saw any order of priority in the SES 2003 act, was because I was looking for some sensitivity that employees would be looking perhaps at one part of the act and maybe management, meaning the administration, at another part of the act, and maybe if you looked at both of them you could develop a win-win approach. But instead he said, well they are all the same and they have equal priority.

We just heard testimony from Ms. Bonosaro, for example, that there is great concern, as anyone would expect, in pay compression, the pay cap. But clearly the administration's priority is pay for per-

formance. One begins to wonder if you can get what you want if you do not look at what this huge workforce wants and try to find some way to get a win-win.

I am looking at your testimony. Sometimes they are rather small things. Sometimes they are clearly larger things. For example, Chairman Voinovich mentioned health insurance. One begins to wonder if in fact there was some movement on what is a critical problem, which is the increasing amount of one's pay in effect that goes to health insurance, whether or not the workforce would be more open to changes that the administration may want. Or they can be smaller problems. He mentioned that one. It can be things that may seem smaller such as the one that was just discussed, OMB as the agency that looks at pay for performance, and not OPM. Well, any Federal worker will tell you that is a big no-no. OMB is a White House agency, is a political agency. OPM comes out of the old civil service system, and its job is to look at everything in light of merit principles.

So if you are trying to find some way to ease the anxieties of the workforce, after all you have appointed the OPM Director just as much as you have appointed the OMB Director, there is administration policy. One might look, if you are looking for a win-win, at the agency whose job it is to put into play something that is a complete departure, and break away in the merit system which is pay for performance. I am just trying to go off of your testimony. Now I am looking at Mr. Harnage's testimony.

Says on page 4, "Does not find the provisions highly objectionable in and of themselves," and then goes on to say, "unless one considers them in the context of far more pressing needs of Federal employees and agencies, again, a suggestion that there may be some way to make these proposals less objectionable if they are too objectionable." I have already indicated to Mr. Walker, that all you are going to get is a blizzard of grievances and court suits and the rest, so what have you accomplished with all of the lowered, with all of the problems that brings for employees and for employers.

So I am looking at Ms. Kelley's testimony in which she says that the NTEU is not opposed to the use of demonstration projects, and in fact, continues to believe that demonstration projects are a valuable method of experimenting with new pay and work arrangements. Again, it looks like we are not dealing with black and white here, but we are dealing with something that says, hey, in order to do particularly massive reform, you have got to look at all the parties and they all have to think they are getting something out of it. Or let's take the problem of new employees, where your testimony indicates that you have difficulty with these new employees getting all of these bonuses, all of these incentives, while employees who have been waiting in line do not get anything.

There has been testimony here about training and the failure to offer training. If existing employees thought they were getting training, even as one was trying to deal with the fact that 40 percent of the government can retire in 5 years, maybe one could come to some kind of understanding that everybody is getting something out of personnel reform and even pay for performance.

I must say for the record, about the last way I would begin pay for performance is giving $25,000 bonuses to political appointees.

It is all down hill from there. You have to begin from the ground up. People who are political employees, they come at lower pay than they may get in the private sector, but then they leverage that to humongous pay within a year or two.

So I guess my question really goes to approach.

Mrs. DAVIS. Ms. Norton's time has expired about 2½ minutes ago.

Ms. NORTON. Yes, but other people went over their time, Madam Chairman, and I would like an answer. I finished my question. My question was not a series of small questions about this and that. I am looking for an approach that gets us to something other than what we have here, which is apples and oranges, and nobody is going to eat them together. So I would like to know whether there is an approach that can bring you together with the administration, that focuses on win-win.

Ms. BONOSARO. I would like to respond to that just because it also will enable me to follow up on something Mrs. Davis asked.

I think you are quite right, and I was reminded as you were talking of the start of the Senior Executive Service, when those of us who were in the old Super Grade system were enticed in, if you will, because the SES was a system that, while it indeed had far greater risk than the system we were in, also carried the potential for a greater reward. And that is the reason why we are suggesting, for example, if you are going to eliminate all the ranks within the SES and really change the structure and create pay bands, let us entice in folks and say, but gee whiz, there is going to be an additional reward, and that is that the bonuses, the awards you get, can count towards your high-3, for example.

If we are going to move in to the pay-for-performance system, let us at least adopt the kind of safeguards that we have talked about so that people can feel more assured that merit principles indeed will still apply. So I think there is a way to have a win-win.

Mrs. DAVIS. If the others would like to respond?

Mr. HARNAGE. Yes. I have not had the opportunity to read Carol's entire statement, but her oral statement, I certainly think we can embrace. There are three matters that Chairman Voinovich touched on that I think deals with where you are coming from. One is the administration has not slowed down on its quotas for privatization, and 850,000 jobs comes from the FAIR Act, the FAIR list and the percentage of jobs that have to be competed under this administration's quota system and their de-rewrite of the A–76 has currently taken place in OMB.

He made a very good point that on the health insurance in his State they have gone from 8 percent to 12 percent, and then they might be going to ask the employees now to make a 20 percent contribution. Federal employees have been making 28 percent contributions for years, so that is just an indicator that this would be an incentive for recruitment and retention. Even if the State increased it to 20 percent, the legislation we have asked for just brings the Federal employee to that same level.

Then finally in the $500 million slush fund that is being created by the administration—and the Subcommittee needs to understand that in 1997 NTEU and AFGE wrote to the then administration asking to sit down and work on pay with what the problems were,

identify the problems and find the solutions. We never got around to that. We went from year-to-year battles here in Congress to try to get pay to what it should be. Same thing with this administration. Within a month of taking office, Colleen and I wrote to this administration, asking to sit down and work on pay. Their response was more or less they were too busy.

We are more than willing to sit down and work with anybody.

I prefer working with Congress, and I will tell you why. I am still looking for $200 million. When the administration came up with a 2 percent across-the-board increase and a $500 million slush fund, the figure is 2.7 percent. Therefore there is $200 million missing somewhere. So if they are going to treat pay that way, I am not too sure sitting down with them would be too fruitful, but they in effect, even with their slush fund, where some employees are going to get that $500 million and some employees are just going to get the 2 percent increase. There is $200 million that should be in that—somewhere in that pay scheme it should be 2.2 percent or it should be a $700 million slush fund.

But we are more than willing to work with anybody that will work with us on coming up with a solution to the pay, and my concern is that FEPCA never has been fully implemented and so we do not know whether it would work until we first tried it. As both of us pointed out in our testimony, there is all kinds of incentives and managerial flexibilities in FEPCA that have yet to be fully utilized, such as the step increase, the step increase as both a penalty and a reward. You can withhold a step increase if an employee's performance is not of an acceptable level. That is rarely done, but nevertheless, that is a tool. In the same token if you have a high performer you can give them a quality step increase. That is a step increase in addition or sooner than they would have otherwise gotten on. Rarely used today.

Senator VOINOVICH. Thank you. We have another panel here, and it is 12 o'clock. Representative Van Hollen.

Mr. VAN HOLLEN. Thank you, Senator. I will be very brief. I just want to make an observation, get a quick reaction.

It is striking, as all of you in your comments have said, you do not oppose to use of financial incentives and bonuses to award for performance. I mean Mr. Harnage has made that clear, so I think it is important that no one is dragging their feet. What is striking—and I appreciate all your testimony, and look forward to going through it in more detail—is the amount of flexibility and a lot of the opportunities that already exist under the law to provide rewards. Ms. Bonosaro, in your testimony you say not only does the Senior Executive Service have a performance system, that it is currently a model pay-for-performance system.

So the question really is the question of resources. It is not that they do not have the ability, the administration does not have the ability to provide bonuses right now. It is a question of whether or not the funds are separately provided for this purpose. With respect to the SES, it is a question not of performance measures being in place and the system being in place, it is just the fact that you have these caps in place.

I would just like to get a very quick response from all of you to that observation, that it is not a question of lack of flexibility and

the ability to provide bonuses. It has been a lack of resources to make the system work

Ms. BONOSARO. I think that the one thing that we know is yes, indeed, there are a lot of flexibilities within government right now. I have not heard anyone really satisfactorily explain yet why they are not all used. We know in some cases they are not always—personnel do not always know about them. Certainly they are not always funded. Sometimes there is simply a lack of will, so that there are a whole variety of reasons.

The one thing I think we would be concerned about is, if because of the view of the lack of performance management systems being at the rate they should be, that therefore we do not resolve the issue of pay compression within the SES. I really think that cannot wait.

Ms. KELLEY. I would say, Congressman Van Hollen, it absolutely is an issue of resources. In fact, Senator Voinovich and I have had this conversation many times, where I have said, "Please do not provide any more flexibilities to the agencies until the resources are provided because all it does is make the list longer and longer of things that are not being used by the agencies."

As far as setting priorities—and I think this goes to Delegate Norton's question about process, how we prioritize, in order to do that, you have to have a two-way conversation, an ongoing conversation. We do not have that with the administration. Therefore, our discussions take place at these forums and in the media because there is not an ongoing conversation to try to figure out the really tough questions about priorities and how to create a potentially win-win situation, which is very different from working through all of the flexibilities we have with you, Chairman Voinovich, because we have these conversations one-on-one, over and over throughout the year before legislation is ever introduced, because you are interested in working with us to figure out what the employee issues are and how they can be addressed. That is the way that I think we can make much more progress on behalf of the employees, the American public, and the agencies, not the way that we do business today, but that is how we do it today.

Mr. HARNAGE. I think you are right on target. OPM's own survey indicated that less than 1 percent of the current workforce received incentives, cash awards, and the reason for that is that they were not funded. The agency, in order to give one employee a cash award, had to take money away from other employees or simply not fill a position. So that is the first problem. It is not an incentive and it is not a reward for performance if you are not receiving the pay that you are entitled to to begin with, and as we have said, we have got to bring FEPCA up to par, and then any incentive that you give is in fact a performance award.

The second thing that you have to watch out for, if you recall,just a couple of years ago we had to get a legislative change in the VA system on nurses' pay because we found hospital directors were balancing their budget on the backs of the nurses. Instead of giving them the pay increases they were entitled to, they were diverting that money to other parts of the budget. So we changed the pay system of the nurses just 2 years ago. Let's not create a monster here of all civil service.

Ms. HEISER. I would concur with my colleagues that the incentive awards program as it currently exists needs some further examination in terms of the tools that are available and the effect that it could have were it properly funded. But I would put to you that first and foremost, as we have said, the appraisal systems really do need to be revised. Pass/fail does not accomplish our objectives—we have to look at why performance appraisals are done. Pass/fail should not be kept—the carrot before the horse is not a good example in this case because hay is not going to be the motivator for people to do a good job of performance management. The driver for performance management needs to be organizational improvement and employee development. That is the way to start with this whole program.

I would also take some umbrage with the idea that a $5 billion annual increase is wasted because it is not based on performance, and I would put to you that if we assume safely Federal employees are performing, then it certainly is based on performance and not wasted money. Thank you.

Senator VOINOVICH. We thank the panel very much for your testimony this morning, and we will take it into consideration. Obviously we have some systemic problems that we have had for several years.

Senator VOINOVICH. Our fourth panel of witnesses includes some of the Nation's top experts from the public, private, and non-profit sectors, academia, and the military. I am pleased to have met many of you at Harvard's Executive Sessions on the Future of Public Service and that you agreed to serve on my Washington-based human capital working group. Hannah Sistare is the Executive Director of the National Commission on Public Service. Hannah, I want to welcome you back to the Senate. I enjoyed working with you during your time as Senator Thompson's Governmental Affairs Committee Staff Director.

Again, I apologize to the fourth panel for the delay. I hope you have enjoyed the testimony of the witnesses. It certainly gives you a little perspective for your clean-up role.

Dr. Steven Kelman is the Weatherhead Professor of Public Management at the John F. Kennedy School of Government, Harvard University. Steve, glad to have you here. Steve has had a lifetime of public policy work, both as an educator and as a public servant, most recently as Director of the Office of Federal Procurement Policy at OMB during the Clinton Administration.

Max Stier is the President and CEO of the Partnership for Public Service. Max, I want to congratulate you on the good job that you are doing with the Partnership. It looks to me like we have to do a few other things to attract and retain good people of public service, if we have listened carefully to what the other witnesses had to say.

Jeff Taylor is the President and CEO of Monster. It was good to meet with you, Jeff, up at the Kennedy School, and I am eager to hear what you are doing to improve the "USA Jobs" website.

We are fortunate to have Major General Robert McIntosh, U.S. Air Force Reserve (Retired), Executive Director of the Federal Officers Association of the United States, and appreciate you being here today.

We will start off with Ms. Sistare.

TESTIMONY OF HANNAH S. SISTARE,[1] EXECUTIVE DIRECTOR, NATIONAL COMMISSION ON THE PUBLIC SERVICE

Ms. SISTARE. Thank you very much, Chairman Voinovich, Delegate Norton and Representative Van Hollen. The National Commission on the Public Service, and our Chairman Paul Volcker, thank you for your interest in their recommendations for the reform and the renewal of the public service. They are encouraged by action in the House and the Senate to tackle this critical challenge.

The title of the Commission report,[2] "Urgent Business for America" reflects their conviction that we must seize the opportunity at hand for reform. Our 13 commissioners are of all political persuasions and from both political parties. They came together with a shared concern about the declining level of public trust in government and its correlation to the public's negative view of government performance. They were troubled by surveys indicating that Federal workers are frustrated in their efforts to get the job done and have difficulty seeing how their efforts contribute to the government's critical missions.

The Commission began its work examining the challenges confronting Federal employees and the difficulty in attracting and retaining the Skilled Workforce 21st Century government demands. Soon, though, they were convinced that to be fully effective, Federal workforce reforms must take place within a modernized government structure.

The Commission's vision is greater consolidation of related and overlapping agencies into mission-centered departments brought together in an environment of more administrative and personnel flexibility, but with strong political leadership.

The commissioners were convinced that organizational cohesion and mission clarity would enhance the morale of the Federal workforce and improve government performance. The goal was not smaller government, but government that works better.

The Commission does not take lightly what it will require to make this work. Some critical ingredients are: An Office of Personnel Management and OMB with the resources to support these systems; strong leadership from well-qualified and well-trained political leaders, career executives and managers; and as Paul Volcker repeatedly stresses, strong oversight by the Executive and the Congress.

To optimize Congressional oversight, the Commission recommends that Congress itself reorganize its own committees around the key missions of the reformed Executive Branch structure. Recognizing that this reorganization will be the work of years, the Commission recommended that Congress pass legislation reauthorizing the Executive reorganization authority that Presidents had, in one form or another, from 1930 to 1984.

Now, the Commission anticipated this authority would be exercised within a framework established by the Congress. They rec-

[1] The prepared statement of Ms. Sistare appears in the Appendix on page 218.

[2] The Commission report entitled "Urgent Business for America, Revitalizing the Federal Government for the 21st Century," report of the National Commission on the Public Service, January 2003, submitted by Ms. Sistare, is retained in the files of the Subcommittee.

ommended including the requirement that personnel systems be governed by the established merit principles of government employment. They also envisioned significant consultation in the development of reorganization plans with Congress, Federal workers and other affected parties.

The purpose of the expedited consideration, once a proposal reaches Congress, is to protect a broadly and well-considered reorganization plan from being pulled apart by partisan or individual turf battles.

On the issue of pay, the Commission recommends that the government pay reflect current market conditions so government can retract and retain talent it critically needs. The market for the workforce, generally, was seen to be the private sector. The market for government's senior leadership was seen to be the nonprofit workforce, and this latter group includes Federal judges, political appointees and Members of Congress. The Commission was particularly concerned with the damaging impact of declining real pay for Federal judges.

As I indicated, the Commission was concerned about the perception and reality of government performance and was critical of the current GS system under which time on the job becomes the major determinant of pay.

Some, including Members and witnesses here today, have voiced concern that a pay-for-performance system is beyond the capabilities of the Federal Government and will be abused by managers.

In response, Paul Volcker would point out that clarity and cohesion of mission is what gives managers the ability to establish performance objectives and measures. Once agencies have credible performance measures, it is possible to judge individual and group performance in a transparent, nonsubjective way. The whole process becomes much less daunting and visibly fair.

I believe the Commission would applaud the administration for getting the ball rolling and would also agree with the Comptroller General on how to proceed. Furthermore, as Secretary Donna Shalala—former Secretary Donna Shalala—noted in her recent testimony before the House Government Reform Committee, you have to have credible people in both political and career management positions for the system to work. And here again, ongoing, effective training plays a critical role.

The Commission had completed its work prior to the introduction of the legislative reforms before the Subcommittees. However, the members of the Commission would enthusiastically applaud the proposals' goals of enhancing recruitment, retention and training, linking training to performance plans and strategic goals, encouraging flexibility in personnel systems, alleviating pay compression for the SES and other senior-level employees, encouraging mid-career entrants, and improving the presidential appointments process. The Commission would add, act with urgency. Thank you.

Senator VOINOVICH. Thank you. Mr. Kelman.

TESTIMONY OF STEVEN J. KELMAN, Ph.D.,[1] WEATHERHEAD PROFESSOR OF PUBLIC MANAGEMENT,, JOHN F. KENNEDY SCHOOL OF GOVERNMENT, HARVARD UNIVERSITY

Mr. KELMAN. Chairman Voinovich, Chairman Davis, Senator Durbin, and Congresswoman Norton, I am not going to talk about pay for performance. I will talk briefly about both attracting talented young people into government—as a teacher of young people considering careers in public service, I am interested in that—and creating workplaces for those people to come into government that will help us retain them and also workplaces that deliver results for the American people.

First of all, I want to assure you I do have some good news, Senator Voinovich. The government still retains an ability to recruit and attract talented young people. This year, half of our graduating students in the Master of Public Policy program at the Kennedy School at Harvard have applied for the Presidential Management Internship program, and recently we were very happy to find out that 40 of our students, out of a graduating class of 180, have been accepted into the Presidential Management Internship program.

One more piece of good news, a student of mine, who has been accepted into that program, Amy Dain, came by my office last week to tell me that within 1 week of her receiving her PMI notification, she had received communication from three government agencies, three different agencies, seeking to recruit her and find out if she was interested. So I think that is a real tribute to your efforts to create interest in human capital issues, to those of the Comptroller General, to Director James and her team at OPM that we are making some progress in that area.

Amy said to me that the three communications she got included agencies she might not have thought of working for otherwise. It has opened up some new opportunities for her.

Senator VOINOVICH. You had out of how many?

Mr. KELMAN. Out of 180 students, about 90 applied to the PMI and 40 have been accepted.

Senator VOINOVICH. And the fact is they moved very quickly. Once they were designated, the agencies did not wait around. They were after them right away.

Mr. KELMAN. Correct. So good news.

Let me briefly comment on some of the provisions of the proposed legislation. I essentially support everything in S. 129. The one provision I wanted to call particular attention to is the provision in Section 302, allowing using non-Federal service time as a base for annual leave. The idea behind this, this is one small step in making it easier for people to enter the Federal Government in mid-career.

Hannah pointed this out, the Partnership for Public Service has been very interested in this. Young people no longer see themselves as working in one place throughout their careers, and we need to make it easier. A source of talent for the Federal Government is people wanting to come in, maybe only for a few years, mid-career, as one of several jobs. We make that much too hard now in the government.

[1] The prepared statement of Mr. Kelman appears in the Appendix on page 229.

Another student of mine who is graduating this year, who was a Teach for America person before he came to the Kennedy School, was looking at a job in intelligence at the FBI that he wanted to apply for. The job said, "Open to current or formal Federal employees only." He cannot apply for that job. I think that is bad news, from the perspective of the public. I think he would have been a very good person for that job.

The Partnership for Public Service has made a number of excellent proposals in this area. One is to set up a mid-career Presidential Management Internship program. I think that is a great idea.

Let me, finally, with regard to hiring good talent, make one suggestion for an additional provision for S. 129, that the bill include a provision to amend Title 5, which currently states that hiring and promotion decisions should be made on "knowledge, skills and abilities," and add the word "accomplishments."

Right now the current language is too bureaucratic, too formulaic, time served, things like that. I think we send a good signal about an orientation toward results by adding that word "accomplishments"—knowledge, skills, abilities and accomplishments—into the statute.

Last, just a word about the other thing, once we get these people into the workforce, creating workplaces that inspire them, continue their commitment to public service. The kinds of things that you did, actually, Senator, as Mayor of Cleveland, with your work on total quality management, I think that a lot of the work here is going to have to be done at the agency level. I think there are some contributions the Hill can make—oversight hearings, looking at ways that agencies are developing nonbureaucratic, more empowering ways of doing business for their employees.

I would urge you to urge OPM to establish a Presidential Management Internship Advisory Council to the President's Management Council, to allow young, talented employees to interact with deputy secretaries and give them ideas for how to improve the Federal workplace.

Finally, in terms of creating good workplaces, never forget the Hippocratic adage "Do no harm." Because I think that probably one of the biggest sources of counterproductive agency practices that create too much bureaucracy, too much hierarchy, is the kind of what I call "management by scandal" approach that, unfortunately, a lot of current congressional oversight encourages.

So I would urge you, as elected officials, to realize that every time the pursuit of scandal creates more rules, more bureaucracy and so forth, you are really decreasing the attractiveness of Federal service to young people.

My student, Amy Dain, describes what she is looking for in a Federal job as follows:

"I am looking for a job where I will be able to learn, where I will be challenged, where I will find mentors who will show me the ropes, introduce me to decisionmakers and open doors and opportunities for me, where I will be able to work in a team to seek solutions to complicated problems, where I will be supported in taking risks, where I will have a sense of making a meaningful contribu-

tions to issues I find important and relevant and where I will find a warm community."

Let us work towards a situation where she will not be disappointed. Thank you.

Senator VOINOVICH. That is wonderful. Thank you very much. Mr. Stier.

TESTIMONY OF MAX STIER,[1] PRESIDENT AND CHIEF EXECUTIVE OFFICER, PARTNERSHIP FOR PUBLIC SERVICE

Mr. STIER. Thank you very much, Mr. Chairman, Madam Chairwoman Davis, Senator Durbin, and Congresswoman Norton. It is a pleasure being here.

We have heard all morning, and now coming into the afternoon, about the human capital crisis. It is truly, I think, best viewed as a multi-tiered problem that is going to need a multi-tiered set of solutions. One approach that we would propose to organize these sets of problems is to see them as a succession of three major barriers:

The first barrier literally being lack of information, lack of information about government jobs, public service, and the value of those jobs and government service;

The second being a broken hiring process, which right now takes too long, is too difficult and is nontransparent;

And the third, as Steve mentioned, are the jobs themselves, which are not always representative of a high-performing work environment which is so critical on the retention side and on the recruitment side.

So I would like to talk, in my oral remarks, about some of the things that can be done in each one of those barriers to address them.

The first piece is what we have learned from our polling is that the most effective way of telling the story of government is through the story of Federal workers, individual workers. And in that light, we have created the program called the Service to America Medals, which recognizes excellence in the Federal service. Eight Federal workers were honored last year. This is done in conjunction with the Atlantic Media Group, and we are doing the same this year.

You will notice, and hopefully—I am sure many of you take the Metro—you will see the ad campaign that we have up. I also have one of the brochures here from the "Service to America Medals,"[2] and I cannot help but take this time as an opportunity to ask all of you to find great Federal workers to nominate for this program, either in your district or otherwise in your experience.

Last year, we had a nomination from a member. It is a fabulous program that really makes a difference both for the workers themselves, but also, most importantly, for telling the American people the story of the Federal Government and public service.

The second piece I would like to highlight is the fact that, by and large, the relationship between the Federal Government and our college and universities has been broken. To respond to that, we started a program with the Office of Personnel Management called

[1] The prepared statement of Mr. Stier appears in the Appendix on page 239.

[2] The brochure entitled "Service to America Medals," submitted by Mr. Stier is retained in the files of the Subcommittee.

"A Call to Serve." To date, there are 400 universities that have signed on, 60 Federal agencies, to raise the profile of the Federal workforce on college and university campuses.

One of the productions that we have created for that network is this "Red, White and Blue Jobs" handbook, again, to address the real inadequacy right now. Most young people know a lot about private-sector options, but not about public-sector options. And if I could, I would ask that both of these brochures be added to the record.[1]

The third piece on the first barrier, the lack of information on the recruitment side that I would like to focus on, is the issue of student debt. Obviously, Chairman Voinovich, Senator Durbin, your leadership with the GO FEDS legislation, I think, is very important.

What we know today is that two-thirds of graduates from our colleges and universities have student debt. The size of those debts have increased exponentially. And even where there is interest in public service, oftentimes, young people do not have the choice to pursue it because of those debts, and I think the GO FEDS legislation is an important step in addressing that problem.

The second barrier of the broken hiring process is one that has, again, multiple components. There is a pledge to applicants that we have designed in conjunction with the Office of Personnel Management which I think is very important to see enforced that includes making sure that job vacancy announcements are in plain English and that the process is an easier one.

I would also note that there are many very quick things that could be done: Internships, for example—the private sector uses them as a critical talent pipeline into their organizations. The Federal Government does not do a very good job about that. In fact, it is very difficult to convert superb interns into full-time employees. There is a distinction made between interns that are brought in under a government program versus a nonprofit program like by the Hispanic Association of Colleges and Universities, and those kind of changes could be made very easily and would result in a lot of good talent and, in particular, diverse talent coming into the Federal Government.

I am rushing here, and so I will jump into the third barrier, which is fundamental and, in many ways, the hardest nut to crack, which is the job themselves. Here, again, I would suggest that the starting point ought to be with the management and leadership.

We can note, from the OPM survey, which was very well done, that only 43 percent of Federal employees hold their managers and leaders in high regard. That is a problem. Your suggestion on starting with the SES, I think, is the right one, and we strongly support the proposal that is before these Subcommittees.

We would also suggest that an additional element that ought to be included is a requirement that agencies conduct regular employee surveys, and this can be done agency-by-agency, with some joint element, so that you can do governmentwide work, but we believe that is absolutely essential.

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[1] The brochure entitled "Red White & Blue Jobs, Finding a Great Job in the Federal Government," submitted by Mr. Stier is retained in the files of the Subcommittee.

And then, finally, I would note that it is very important for us to focus on the flexibilities and the improvements that have already been passed, in particular, the Chief Human Capital Officer Act—wonderful legislation. Implementation is really the name of the game right now, and we need to make sure that it is done right.

Thank you very much.

Senator VOINOVICH. Thank you, Max. Mr. Taylor.

TESTIMONY OF JEFF TAYLOR,[1] FOUNDER AND CHAIRMAN, MONSTER

Mr. TAYLOR. Chairman Voinovich and your esteemed team, I want to thank you for an opportunity to come here today. I have a mission to help people love their jobs, and a big part of this for me has been to try to educate to the government about the window of opportunity that I see, and this is really competing with the private sector for talent.

I decided I would do kind of time line because I think it shows where the opportunities are. And with the advent of the Internet and the worldwide web and the invention in 1993, we really launched our next mass media, radio, television and now the Internet and, for the first time, a reason for a PC on every desk top, and maybe more importantly, an affordable medium to communicate.

The result, when you overlaid that on top of a tech boom and a telecommunications boom, was 1999 tech and dot-com euphoria, and with that, a booming economy, entrepreneurial fever, unprecedented venture capital and IPOs, so advantaged private-sector businesses. You ended up with 3.9-percent unemployment, rapid pay acceleration and stock options, as currency, which then gave the advantage to the job-seeker or the employee.

So I look at this. In fact, there is a measurable shift in 1999 and the beginning of 2000, where employees really started, for the first time in 100 years, to take control of their own lives and companies were in a panic.

Then, we have April 2001. We have the dot-com and the tech bubble is really exposed. I talk about the "Emperor has no Clothes," and by summer of 2001, we had dot-coma. I know we are not supposed to laugh in this, but that is kind of funny, come on. [Laughter.]

So here we are today, it is 2003. The treadmill has slowed. I call it "the eye of the storm." This is kind of the calm. It is the reprieve in business and for government that you never really get—6 percent unemployment, give or take 8.5 million people out of work.

Recently, President Harry Truman—well, maybe in relevant form—said, "If your friends are out of work, it is a recession. If you are out of work, it is a depression."

And I think that what we have now is longer job search cycles, extended benefits that we have provided, which are running out. A stable job is in fashion maybe for the first time in 10 years.

Employee or talent attitudes are more realistic than they have been, and I look at employers momentarily are regaining control, but there is very little dry powder. The economy has basically put

[1] The prepared statement of Mr. Taylor appears in the Appendix on page 254.

us in a position where the private-sector companies do not have much to go on.

So here is the opportunity. I think the government needs to capitalize on the economic slowdown to seize talent in the private sector. You have e-Gov initiatives right now, very positive. You have new initiatives with TSA and Homeland Security. I look at the positives. There are many new jobs that are going to be created.

Go USA sentiments from the tragedy and terrorism of September 11 comes the pride of America, and for the first time in recent memory, for me, an opportunity to think about working for the government and some of the stability factors that are there in a new way.

Candidates have an open mind. A recent Monster survey of 51,000 job-seekers on Monster, 80 percent indicated that they would consider working for the government. In a Monster survey of our campuses—we partner with over 1,400 campuses—86 percent of students said they would think about working for the government.

So I look at the Internet as a new mass medium. It is inexpensive distribution. It is fast adoption by the target groups for the government, and I look at early successes as a way to prove this. Through a partnership with Monster, through NCS Pearson, TSA needed security people fast. We posted the jobs on Monster. We had over 6 million job-seekers view those jobs, 1.7 million applicants, 417,000 went through assessment. They hired 61,000 people through the Monster interface in a very short window of time. We have 66,000 people that are placed in the ready pool.

So what I am trying to show is it is not just the Internet, but your new partners in the private sector can actually be an answer for some of these recruiting challenges.

I look at the challenges that you have ahead are equally daunting. The aging workforce, it has been well-covered. But it is not just the talent, it is the knowledge that is going to leave your ranks and your agencies. Insular recruiting, which has been a dynamic way that you have recruited, is really going to fail because there are not enough candidates.

Your outside systems, and what I will call "old habits," I have got to challenge, I guess. According to a recent survey done by MSPB, it is just being printed now, 300 Federal human resource specialists were interviewed. Ninety-six percent used the USAJOBS site to recruit, 30 percent used agency bulletin boards, 6 percent used the newspaper, zero used the Internet job boards that are out there.

Monster, for one, had 20 million unique visitors in our highest month, which was in January, coming 54 million times a month. This is the private sector that is ready to go to work for the government.

Thirty percent of government agencies still do not accept electronic applications. Many agencies have no staffing automation, and this can create 4- to 6-month backlogs. Ultimately, the vacancy announcement, the description itself is daunting. And if you would share, this is a description—could you bring that up here into the light, just so you see—this is a description on Monster for the

Army for one position, and you can see that it is a little longer than your average private-sector position.

So two last things: The brand and culture concerns, although I am amazed at the war kind of power of the United States, and the spirit, and the branding that is going on right now, I think we have to transfer that to a new war which is happening, which is the war for talent. And I look at the window closeing. In 2008, the private-sector competition will reenergize. Economists predict 4-percent unemployment by 2010. The Bureau of Labor says 10 million jobs will go unfilled by 2010. Private-sector fuel, it will go back to venture capital, rapid pay acceleration. The window will close.

I am predicting the worst labor shortage ever in our lifetime that will start in 2008. If we do not act on some of the things I have talked about, in my judgment, baby boomer exit, 10-year shortening, broadened skill shortages, e-commerce to e-business transition, where all businesses will change, and ultimately the free agent world is going to create an incredible scenario for the government, and it is going to be very difficult to hire.

The window from 2002 to 2005 is where I am suggesting that we look. We have already burned 1 year.

Senator VOINOVICH. Thanks very much. General McIntosh.

TESTIMONY OF MAJOR GENERAL ROBERT A. McINTOSH, USAFR [RET.],[1] EXECUTIVE DIRECTOR, RESERVE OFFICERS ASSOCIATION OF THE UNITED STATES

General MCINTOSH. Chairman Voinovich, Chairwoman Davis, Senator Durbin, and Delegate Norton, it is certainly a pleasure and an honor for me to be here representing the 80,000 members of the Reserve Officers Association. I am going to shorten my 5-minute remarks in the interest of time, but I do have a couple of things I need to cover.

S. 593, the Reservists Pay Security Act of 2003, is a significant step toward resolving the pay hardship issue for a portion of the Reservists who have been mobilized to support Operation Iraqi Freedom. The bill would entitle any employee of the Federal Government who is called to perform service as a member of the uniformed services to receive civilian pay in the amount, which taken together with his military pay, would be no less than the basic pay he would then be receiving if no interruption in his civilian employment had occurred.

Simply put, the bill would ensure that, at least financially, no harm would be done to a mobilized Federal employee. There are approximately 120,000 Federal employees who serve as members of the Reserve components. A significant number of these, between 12,000 and 13,000, are currently mobilized, and of course that is of the total number being mobilized of 220,000 Guardsmen and Reservists for Iraqi Freedom.

As we noted, we predict there will be more Reservists and Guardsmen activated over time in many contingency operations in the future, and certainly we look toward several over the few years in the part of the world we are now engaged.

[1] The prepared statement of General McIntosh appears in the Appendix on page 259.

More importantly, however, this bill is an opportunity for the Federal Government to lead the way and to set the example for other employers of members of the Guard and Reserves. There are already many employers—city, State and private—who pay all or some part of the difference between their employees' civilian salaries and their military compensation. There could be more.

If we are to encourage employers to help protect their employees' financial well-being when they are serving their country, the Federal Government must lead the way and set the example. If the Federal Government does not do the right thing, what kind of a message does it send to those employers whose connection is more tenuous?

The Federal Government, whose actions in this regard can only be legislated, must lead by example and encourage the private sector to do what cannot, and ought not, to be legislated in the private sector.

There is more to this issue than Federal mobilized employees and their families, but we must start here, now at home, as it were. This provision is a first step in demonstrating a practical and meaningful way that the contributions of our Reserve forces are fully recognized and appreciated by the Nation. Thank you.

Senator VOINOVICH. Thank you very much.

It is interesting that my staff director for this Subcommittee was mobilized with the U.S. Navy for the conflict in Iraq. I just inquired about what his leave situation is, and what he is going to receive. I think he has cobbled together some vacation time and some other things, but after that is over, he will be getting his lieutenant junior grade pay, which is substantially less than he is making in his staff position here.

You all were very patient to hear the testimony of the other witnesses, and it seems to me that there are some fundamental things that need to be addressed if we are going to capitalize on, as Mr. Taylor suggests, this window of opportunity that we have. At this stage of the game, it does not appear that pay comparability health care costs, or concerns about outsourcing have negatively impacted on our recruiting.

Would anyone like to comment on that?

In other words, Steve, your Harvard graduates are coming to work for the Federal Government. But I remember when I was up there talking to a couple of your students, one of the things they said to me was, when they looked at the Federal service they were wary about the outsourcing of Federal jobs. They were thinking about, instead of coming to work for the Federal Government, going to work for the companies that are getting the outsourced work.

I would just like you to comment on that, if you would, or anybody else.

Mr. KELMAN. It is interesting that they said that to you. I actually have not heard that. When I talk to my students about why are you thinking why might you work in the government, why might you not work in the government, probably the two single biggest issues that come up again, and again, and again, one is student loan repayment because the students have very high debt burdens, and they are often getting job offers that are much higher in the private sector.

So one is student loan repayment, and then the second is quality of work, and Max and I have both been talking about this.

There is a not necessarily fully unjustified perception that too many jobs in the Federal Government are too bound up by rules, and procedures, and clearances, and so many things that make it harder for an individual to feel that he or she is making a difference. I almost hear that more than I hear even student loans. Student loans is a very big issue for our students, but what is the quality of the work going to be once I get on the job is a theme that comes up again, and again, and again.

Ms. SISTARE. The surveys that the Center for Public Service at Brookings has conducted confirm what Steve says. Even at the Schools of Public Administration, most of the students are looking to go perhaps to State and local government or more likely to the nonprofit sector and, again, it is the job that the students are primarily looking for. They are interested in pay and the other benefits, but the ability to make a difference really makes a difference for them.

Senator VOINOVICH. That is really interesting because, over the years, the Federal Government was always more attractive than State and local government, and in the last decade or so there has been a shift to go to work for State and local governments.

Mr. STIER. Chairman Voinovich.

Senator VOINOVICH. Yes?

Mr. STIER. I just wanted to add to that, though, that I think this, again, is a multi-tiered problem. Clearly, it is fabulous that people at the Kennedy School are coming to the government or are interested in the government in greater numbers, but you will expect that in a School of Public Policy.

There are a lot of people out there that the government needs, whether it is IT workers or engineers or scientists, who simply are not informed about the opportunity to come to government or the value, and even when they are, you run into the student debt issue.

Senator Durbin is a lawyer. We recently did a poll of third-year law students. Two-thirds said that they could not make the choice to go into public service or public interest because of their debts. It is extraordinary how big of an issue that is.

And then once they are interested, and if their debts are not a problem, the hiring process is often an enormous deterrent. And so, again, this is a multi-tiered set of issues, and while all of these factors are going to influence it, even in this day talent is always going to have choices. Even when there is an economic slowdown, the real top talent has choices, and we need to make sure, obviously, that we get the very best, and therefore make sure that all of these elements line up in the way they need to for the government.

Senator VOINOVICH. So the thing is, if you were going to really do something quickly to handle this problem, you would deal with the loan situation. I think there is legislation that would increase the aggregate maximum from $40,000 to $60,000 and the annual cap from $6,000 to $10,000. Would that help?

Mr. STIER. I think the loan situation would absolutely help. I think that working on making the hiring process a faster, easier system would absolutely help, and then making sure, once they get

to those jobs, that high performers and innovators are supported, and then starting off with the outreach would do the trick.

Senator VOINOVICH. Right. But the fact is right now, to take advantage of the situation we must address the loan situation, get OPM to really concentrate on this very complicated hiring process, shortening it up and making it easier to get people in. And then once we have done those things, we should consider the quality of the jobs.

Mr. STIER. Correct.

Senator VOINOVICH. But now the thing is you have to go out and land them.

Mr. TAYLOR. Could I just make one comment here? Is that I do not think we are educating the general private-sector population about the possibilities. I think if you look at this like a funnel, we are about to open the funnel up, and we are letting too many employees out of the Federal Government, and we do not have enough input coming in. So we need to make that process easier, but we also need to work on our branding to position the organization, the Federal Government as a whole, all agencies, to bring new talent in. You do not have enough young workers coming in here to basically feed the system.

We recently won the Federal contract to run USAJOBS, and we are able to take our back-end systems and basically start to fix some of the systems and make it so it will work, but we are still going to have to tell the general population that we have got jobs out there, and we are going to make it easier for them to go through that process.

Senator VOINOVICH. Max is helping with branding it on the college campuses.

Mr. TAYLOR. He sure is, right.

Senator VOINOVICH. And a lot of people are cooperating with him. How long is it going to take you to launch that new website?

Mr. TAYLOR. We are ready. So we need a formal announcement, probably about the end of this month. We really just got the contract at the end of January.

Senator VOINOVICH. That is fast action.

I have to say that I asked my staff in Cleveland to compile a list of Federal jobs, because people call, and ask, "What jobs are available," and it is a nightmare. I do not know how many pages of information that we had, but in terms of being user friendly, it was awful, just awful.

Mr. KELMAN. One very operational suggestion to OPM, a big deterrent is that because of the traditional "rule of three," which is now eliminated, students had to give an entire, not just a resume, but this enormous amount of information just to apply for a job. In the private sector, that does not happen. You apply for the job with a simple resume, and then if they are interested in you, you start getting more information.

In the Federal Government, we have had to do everything up front, and students look at this and say, "It is going to take me 20 hours just to apply for this job, where for a private-sector job, I just give them a resume." I hope that OPM is going to be dealing with that and that the agencies will deal with that.

Senator VOINOVICH. Jeff, are you dealing with that at all? Have you made the recommendation to them, that even when they get the website up, they still have to deal with that long list of stuff that you just showed us? Are they aware of that problem?

Mr. TAYLOR. We are actually working with the OPM Office on a number of different dynamics. Obviously, as part of the process of putting a website up, we have had a chance to question some of the stuff that is going to actually be in the content of the website, but there is a fairly complex process surrounding this, and I think we are going to do it in phases.

I think Ms. Norton likes that kind of "pilot project" approach, and I am looking at USAJOBS as our pilot project to try to help the Federal Government to attract the talented workers.

I think what you will see is, just when we launch, there is going to be a whole new set of steps, and working with Max and the Partnership, we are actually trying to get a theme out there to really expedite the whole process of applying for a job and also how we respond back to them so they know what is happening in the process.

Senator VOINOVICH. Great. I have taken too much of your time, Congresswoman Davis.

Mrs. DAVIS. Thank you, Senator.

Ms. Sistare, you said that, and I am not sure I have got your words exactly, but urgency to get with it on this pay for performance, I guess it is.

Ms. SISTARE. Well, urgency to address the problems of the public service.

Mrs. DAVIS. But you said, if I heard you correctly, that you did agree with the Comptroller General that we should not just jump into it; we should have set things in place, and I forget what he called it.

Ms. SISTARE. The Commission's report is more of an architectural drawing than a blueprint, but the commissioners did feel strongly that performance needed to play more of a role in government and then the rewarding through pay, and I think they would applaud the administration's effort to get it going, but you do have to have a system in place. You do have to have measures. You have to have confidence in the system. As Secretary Shalala said, you have to have people trained to run the system.

Mrs. DAVIS. So you agree we need to do a little bit of work before we jump into it.

Mr. Stier, your organization is actively promoting Excellence in the Federal Workforce. Do you see any inherent contradiction in the President's proposed management reforms and his attempt to privatize more Federal jobs with what you are doing?

Personally, if I was looking for a Federal job, I would be very nervous because of privatization.

Mr. STIER. I think that one of the key issues right now is an informational one, to make sure that the American public, as Jeff said, really understands the value of public service and the opportunities that are there. We did a set of focus groups, and one of the things that we found was that, basically, people in the labor market had no idea about government jobs. When we gave them

a list of government jobs, many of their perceptions about the government changed.

You asked the question about privatization. The issue of privatization, in fact, has been an ongoing one for the government for many years. I believe that upwards over 300,000 jobs were shed from the Federal workforce during the 1990's and, in fact, some of the workforce imbalances we are seeing today are a result of some of that privatization that occurred.

I think that it is absolutely essential that the message go out that Federal Government jobs are incredibly valuable, that they offer not only something for the country, but for the individuals that are taking them, and that it is a chance to really make a difference.

I believe that you can, in fact, have an environment in which the value of public service is maintained in the context of still allowing some jobs to be open for competition, and I think that the employee groups are open to that as well. I think where the difficulty comes is when you start seeing quotas that are set that are not really based on any particular jurisdiction, and it is also, I think, really essential to focus on the fact that where there are competitions, it does not mean that these jobs are being privatized.

In fact, in many instances, public-sector workers win those competitions, and that is something that, I think, ought to be used as a demonstration of the great work that the public sector, in fact, is doing.

So, again, I think that they do not necessarily have to be in contradiction. Unfortunately, currently, they are, at times, in contradiction.

Mrs. DAVIS. General McIntosh, the administration is concerned about paying Federal Reservists their differential because many times they would be out, at least it is my understanding, many times they would be out in the field, and they would be making more than their commanding officer, and there is some concern that would be bad for morale and the like, and then they would be out there with other Reservists who are not getting the differential from the private sector. How do you address that?

General MCINTOSH. Well, certainly, today we have those differences in individuals because we have people in the field whose companies are paying the differential because they are such strong supporters of the Guardsmen and Reservists. We had the same situation in Desert Shield and Desert Storm. And, of course, those who did not get differential pay or had their own businesses or were professionals, some of them lost their businesses.

In Desert Shield/Desert Storm, where we had a little higher number mobilized than we do today, we had no negative feedback from the field, in terms of morale, and people talking in the foxhole about difference in pay. That did not come up. It was not an issue. The troops did not talk about it, and I would really question the logic of saying that would be a problem.

Mrs. DAVIS. Well, serving on the House Armed Services Committee and last year on the Personnel Subcommittee, I heard that a lot, and I wish we could pay everybody, private sector and the works, but I thank you for your service.

Thank you, Mr. Chairman.

Senator VOINOVICH. Senator Durbin is the Ranking Member of our Subcommittee.

OPENING STATEMENT OF SENATOR DURBIN

Senator DURBIN. Thank you. I will be very brief because I know Congresswoman Norton has been waiting too.

Let me ask you this, Major General McIntosh. It is my understanding that 10 percent of the Guard and Reserve in the United States today are Federal employees.

General MCINTOSH. The data we have looked at, our estimates built on estimates, show about that 120,000 of about a 1.1-million force.

Senator DURBIN. So it is a significant portion.

General MCINTOSH. Very significant.

Senator DURBIN. Second, it is my understanding that some 6 or 7 percent of those who have been activated for Enduring Freedom in Iraq are also Federal employees.

General MCINTOSH. That number is emerging, Senator, but it is approaching that percentage, that is correct.

Senator DURBIN. I think it goes back to an earlier point that has been made over and over again in different ways, and that is whether or not a career with the Federal Government is going to result in treatment comparable to other jobs in life. And the point that you made is that States, counties, cities and many private corporations have decided that if you are willing to make the sacrifice to serve your country in the Guard and Reserve, and you are activated, that they are going to make certain that your family does not suffer in the process.

This just strikes me as a reaffirmation of the fact that Federal public service should not be a disincentive to serving our country in the Guard and Reserve. It should be consistent with it and an incentive. I understand, as you said, there are disparities in how troops are treated in the field. I hope that this notion that we have to play to the lowest common denominator instead of to the middle ground or higher common denominator does not argue against this.

I have used the example of a friend of mine back in the Midwest, leaving a job with the FAA as an air traffic controller, facing the prospect of being activated and taking a position serving his country, that it would cost him roughly $30,000 a year.

Now, that is a very dramatic hit, in terms of income, and he is going to do it one way or the other, but whether the person is working for Congress on Capitol Hill or working for the Federal Government, I hope that we will consider this Reserve pay security as a way to approach this, and I thank you for being here today to tell us about your support for that.

General MCINTOSH. Thank you, Senator.

I would like to make a comment. I have been in and out of the Reserve, going from reserve to active, and back and forth, for a 37-year career, and I have yet to hear one troop in the field talk about the difference in pay, relative to a Reservist serving side-by-side with an active component.

The other thing I would say, these two gentlemen to my right, I was just handed a note, their companies pay differential. So, as a retired Reservist and someone who cares about our Guard and

Reserve and the defense of the country, I would just like to personally thank you on the record.

Senator DURBIN. Thank you. Let me ask you, I have raised this question about student loans as long as I have been around this Subcommittee. I have not been as passionate an advocate as my colleague, Senator Voinovich, has been on the general human capital question. He has become our Senate expert, as he has devoted a major part of his public career to this issue. And we have managed to put some money into congressional appropriations to deal with the staff on the Senate side—I do not know, Congresswoman Norton, whether it is the same case on the House side yet—for student loan forgiveness.

Let me just ask if any of you would like to comment on one of the quandaries and one of the difficulties. If you were putting student loan forgiveness into the package as part of an incentive for recruitment and retention, where do you draw the line? That has been the tough thing.

We have had people on Capitol Hill in different offices who have said, "Wait a minute. This employee has been with us for 2 years, has a significant student loan, has a significant monthly payment. There is no talk about this employee leaving," but what would it take then for retention for me to provide student loan forgiveness? Do I give it to everyone who has a student loan who works in my office, only if they say they might leave, only if it is an incentive to bring them? Where would I draw this line? Because it is becoming ubiquitous. Student loans, as I know from my own family experience, turn out to be an issue that younger people face as a reality.

Do you have any thoughts on that, Dr. Kelman?

Mr. KELMAN. I guess I would say this is not something that should be addressed in legislation. That is the thing I feel most strongly. This is a very workplace level, I mean, this is what we pay managers for, to make decisions like this. I guess I would say that we should maximize the flexibility that an organization has to use whatever limited pot of student loan forgiveness money to be used most effectively.

My quick inclination is that the only thing that legislation should say is that it is up to the organization to determine how whatever limited pot is available is used.

Senator DURBIN. Mr. Stier, do you have any thoughts on that?

Mr. STIER. I think that Steve is exactly right. It really is a management issue, and really it should be viewed, again, as a tool, and I think your emphasis that it is not only a recruitment tool, but a retention tool, is quite important. Because, indeed, they are really two sides of the same coin, and I think it is important for a manager to see the panoply of different benefits that they can give to get and keep the talent they need as good managers.

Now, that said, one would hope that, particularly in the government context, that the managers would be held accountable, and one would hope that, as part of their own evaluation, you would look to how they are doing in terms of recruiting and retaining talent in their organizations. There are Federal entities that do that—the Bonneville Power Administration is one of them—to great success.

And I think that is one of the really key elements, Mr. Chairman, that you had asked about earlier. If you have to start someplace, one of the key places is really starting on making sure we have a management and leadership corps here that can get the job done. There are a lot of things we could do with that.

There is a Commission recommendation about creating a technical line, in addition to a managerial line, in the SES. That is something I think would be very valuable to explore, to make sure that you are actually selecting managers for their management competencies and not simply because you want to give them a raise, and in fact they deserve a raise. So make it an option so that people can get the money they deserve and still maintain the competencies that you need.

Senator DURBIN. I would just close with this. I think the student loan forgiveness issue is a generational issue that we have to deal with because I think many of us in Congress making the decisions on student loan forgiveness never lived through what kids are living through today.

Mr. STIER. Right.

Senator DURBIN. Maybe we can identify with our children who are living through it. My daughter is, in just a few weeks, completing her 28-year educational training. [Laughter.]

And it turns out that, and God bless her, she has done wonderful things, but it turns out the meter has been running, and when she finishes, as we discussed over the weekend, she has to think about a job she can take where she can pay back that student loan.

Mr. STIER. Right.

Senator DURBIN. It is just a fact of life, and if you do not deal with it, then, frankly, you are going to deal the Federal Government out of the picture.

Mr. STIER. Right.

Senator DURBIN. Thank you all for your testimony.

Senator VOINOVICH. Thank you. Congresswoman Norton.

Ms. NORTON. Thank you, Mr. Chairman.

Just to you, General McIntosh, quite apart from issues of fairness, I am almost frightened by the extent to which the defense of the United States today is dependent upon the Guard and Reserves. So if, for no other reason, if we want to continue to recruit people to defend our country, we have got to begin to deal, in some way, with the questions you raise.

One thing we have not faced is the extent to which the Reserves and the Guards are race- and class-based; people who have gone to get expertise, to get training opportunity that they did not have in this society. My son would not have gone into the Reserves or the Guard because he is a middle-class boy that went to college. There are such people who go into the Guard and Reserve.

But one of these days we are going to look and see who goes and who does not go, and I think we will come particularly to understand that we owe them much more than the waving of the flag, and even in the bills that we put forward, and certainly we have got to begin to deal with this differential problem in some way.

I have a question for Ms. Sistare and Dr. Kelman. I believe you were here and heard testimony of the previous panel that we are not using the flexibility we have. There may be a number of rea-

sons for that, but one reason that clearly came out was the win-lose situation that the agency faces, that there is one pot of money, and if you go to reward employees, even with the existing flexibility, you are taking it out of that pot, and more often than not, taking it from other employees. And rather than do that, people simply do not move on the flexibility at all.

I am asking you whether you think pay for performance and other changes involving pay would be better implemented and better received if, in fact, there were additional resources to accomplish this departure from what has been the norm in the merit system.

Ms. SISTARE. I think, definitely, the Commission definitely feels that adequate funding of any of these kinds of programs, including training, which has not been adequately or consistently funded over the years, is absolutely necessary to its being effective.

Mr. KELMAN. I very much appreciated what you said before about trying, as a general matter, during the earlier colloquies, to look for win-win solutions. It has been really tough in this area, and it has been very frustrating looked at from Boston to see all of the partisanship and so forth that has taken place here.

I think, inevitably, money is not going to be unlimited. There, inevitably, are going to be some choices and sometimes tough choices. Obviously, more money greases things. I guess I am personally inclined partly to agree with Ms. Sistare that, for me, actually a priority for additional funds, in addition possibly to some versions of pay for performance—I do not want to go into great lengths of my own views on this, I have sort of mixed views, but be that as it may—I think more money for training, which our friends on the Appropriations Committees, both in the House and Senate, usually is the very first thing that gets taken out of any agency's budget I think is extraordinarily "penny wise and pound foolish."

I guess we are in a tight budget environment, and, yes, it would be wonderful to have all of this money to give out and, yes, that would make things easier, but I also think we have to choose priorities, for whatever pot of money we have, what is going to do the most to create a public service that attracts and retains good people. I think, at the end of the day, there are going to be some tough choices. We are not simply going to be able to say let us give more to everybody.

So I like the idea of trying to look for win-wins. I think we should do it to the maximum extent we can, but also funds are limited.

Mr. STIER. Congresswoman, I think, bottom line, that the Federal Government has insufficiently prioritized the Federal workforce, and that includes not only resources, but clearly focusing on good management. I think we have dug ourselves very much into a hole that we need to fill in and to do better with, and that in the long term, those kinds of investments, as we have seen from a lot of private-sector data and public-sector exploration, pay off.

And so I do believe that we do need to see more resources, and I think, ultimately, for pay for performance to work. A lot of the skepticism that was raised is the right skepticism, but it is the right goal for us to be trying to achieve, and we should be figuring

out how to get there through a win-win strategy such as the one that you were suggesting we need to pursue.

Ms. NORTON. And, Dr. Kelman, when I said win-win, that does not mean that dollar-for-dollar you get as much here as you get there. Win-win also means lose-lose; that everybody loses something usually, as well. And I will tell you what win-lose is. If you are trying to do something in the workforce that has not been done in 100 years, and you begin by giving $25,000 to political appointees, that is win-big lose. Or you begin by saying pay for performance and no additional money, but it comes out of your pot, that is win-lose.

Now, I am just looking for not—give me an equal amount of money here. If the world were so simple, that would not be win-win, it would be an inexhaustible supply of resources, and we would have no problems.

This takes deeper thinking than I am seeing come forward. And simply saying, "well, you are not always going to get more money, gets us back to where they are."

Let me ask you a question, Dr. Kelman, further. I think you or somebody cited a very good example that brings to mind something that some of us are working on. Was it you, Dr. Kelman, that cited the example of a brochure that says "only former and current employees"?

Mr. KELMAN. Yes, it is actually a job announcement.

Ms. NORTON. Let me try that one on win-win. Because I would agree, you see, I am looking for some way to streamline and modernize the gargantuan civil service system, while being fair enough to employees so that they are stakeholders also in that system, and I have never seen any system, particularly systems I know in the private sector, that worked any other way.

I am still a professor of law at Georgetown, but when I was a free citizen, I was on the board of three Fortune 500 companies, and I never saw them do anything except on a win-win basis. Some of those companies were unionized and some were not, but they did understand how to get personnel on-line with you, and if you did not, you did not have a system.

So I agree that if you are a bright, young person, and you see you have to already have been a government employee, it makes you pretty cynical.

Some of the employees that would be most valuable to us are people at mid level who have considerable expertise. Both of you, Mr. Taylor and Mr. Stier, in effect, are talking about some of those employees.

One of the things some of us are considering is a bill that would invite people at mid level to apply, but it would be open to employees who are not Federal employees and to employees who are Federal employees.

Mr. KELMAN. You mean apply for like a Presidential Management Internship——

Ms. NORTON. Oh, no.

Mr. KELMAN. No. What are you thinking?

Ms. NORTON. Mid level. I am talking about attracting people at mid level. You know that some of those people are in the private sector. You know for sure some of them are in the private sector.

You know some of them are kind of fed up with the private sector. They would like to do some public service work. You want to bring them in. You even want to bring them in at mid level.

But the reason—and I have no idea—you have this brochure that says "former and current employees only" is because there is perceived to be a competition between these two kinds of employees. Why not eliminate the competition, and say those of you at mid level, whether you are in the government or out of the government, whether you are, I do not know, a GS–12 in the government or you come from Metropolitan Life Insurance Company, you can compete for this series of jobs; would that be something——

Mr. KELMAN. Oh, absolutely. No, I mean, it would make no more sense to exclude current Federal employees from competing for jobs than it is to limit it. So, no, obviously both groups should be there, and I guess the worry has been that with more and more people, younger people, are not looking any more in the same way as our generation did for one career your whole life, whatever, just stay in an organization, they are moving around a lot, that the government is cutting itself off from a potential source of talent.

And some people who want to have, as you indicated, a period of doing public service, but maybe, for whatever reason, feel they cannot do it their whole career, give them a chance, but certainly not at the expense of saying we are going to exclude the existing Federal employees.

Mr. TAYLOR. I would like to make the comment that on that 7- or 8-foot-long job description, right near the bottom it says, "Do not E-mail or fax or call on this position. Only mail your resume."

And so what happens at the mid level for talented individuals is, by the time that system works for that person, it could be 3 or 4 months, in some cases I have had Federal applicants come up to me at these different conferences and say 9 or 10 months later they get a call back that says they are interested in talking to you. Well, you are 7 months into a new job when you get that request.

So it is a balance here is that it is, for Federal employees, they understand the process and the expectation. So they are the perfect candidate for the job, which is why there is a lot of insular trading of employees back and forth between the agencies.

To get somebody from the outside in the private sector, we are going to have to clean up some of these systems, get the momentum going, which is a lot of what Max has been working on with the Partnership, and working with Monster, so that we can get these candidates in, in a timely fashion, get them responded to so we keep them warm and ready to go to work.

Mr. KELMAN. I once actually asked Jeff what percentage of the jobs advertised on Monster are entry level versus nonentry level, and I think you told me it was like over 90 percent are nonentry-level jobs.

Mr. TAYLOR. Entry-level jobs, like very senior executive jobs, are not listed, for the most part. Entry-level jobs, most companies, whether it is hubris or not, think that entry-level workers will come to them in droves anyway. That is really changing, as we speak, as more campus recruiting takes center stage.

Ms. NORTON. The Chairman has a vote.

I want to say to General McIntosh and to the Chairman, one of the reasons why I am so attuned to what you had to say is that I have people in Iraq, people who are second per capita in Federal income taxes. They have nobody here in the Senate and only me in the House, and I do not intend to see one more denial to them.

And I want to say to you, Mr. Taylor, there are some agencies where you can only apply on-line. So we have got to have the balance, too, because not everybody in the world is computer literate, and we are not only applying for those kinds of jobs. We need equity for those who are technically competent——

Mr. TAYLOR. Absolutely.

Ms. NORTON [continuing]. And those who might be competent to come to the Federal Government, but are not on-line.

Thank you very much, Madam Chairman.

Mrs. DAVIS. Thank you, Ms. Norton.

I thank you all. It has been a very long hearing, and thank you for your patience. If there are no further questions, there may be additional questions for the record, which we will submit to you in writing. And for the information of my colleagues, the hearing record will remain open until the close of business Thursday afternoon.

With that, this hearing is adjourned.

[Whereupon, at 1:09 p.m., the Subcommittees were adjourned.]

APPENDIX

United States General Accounting Office

GAO

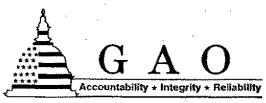
Testimony
Before Congressional Subcommittees

For Release on Delivery
Expected at 9:30 a.m. EDT
Tuesday, April 8, 2003

HUMAN CAPITAL

Building on the Current Momentum to Address High-Risk Issues

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



GAO-03-637T

GAO
Accountability · Integrity · Reliability
Highlights

Highlights of GAO-03-637T, testimony before congressional subcommittees

Why GAO Did This Study

Federal employees represent the government's knowledge base, drive its capacity to perform, and define its character, and as such, are its greatest asset. The early years of the 21st century are proving to be a period of profound transition for our world, our country, and our government. In response, the federal government needs to engage in a comprehensive review, reassessment, reprioritization, and as appropriate, reengineering of what the government does, how it does business, and in some cases, who does the government's business. Leading public organizations here and abroad have found that strategic human capital management must be the centerpiece of any serious change management initiative and effort to transform the cultures of government agencies.

At the request of the subcommittees, GAO discussed the status of the federal government's efforts to address high-risk human capital weaknesses, possible short- and longer-term legislative solutions to those weaknesses, and other human capital actions that need to be taken to ensure that federal agencies are successfully transformed to meet current and emerging challenges.

www.gao.gov/cgi-bin/getrpt?GAO-03-637T.

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

April 8, 2003

HUMAN CAPITAL

Building on the Current Momentum to Address High-Risk Issues

What GAO Found

Since GAO designated strategic human capital management as a governmentwide high-risk area in January 2001, Congress, the administration, and agencies have taken a number of steps to address the federal government's human capital shortfalls. In fact, more progress in addressing the government's long-standing human capital challenges was made in the last 2 years than in the last 20, and GAO is confident that more progress will be made in the next 2 years than the last 2 years.

Despite the building momentum for comprehensive and systematic reforms, it remains clear that today's federal human capital strategies are not yet appropriately constituted to meet current and emerging challenges or to drive the needed transformation across the federal government. The basic problem is the long-standing lack of a consistent strategic approach to marshaling, managing, and maintaining the human capital needed to maximize government performance and assure its accountability.

Committed and sustained leadership and persistent attention on behalf of all interested parties will continue to be essential to building on the progress that has been and is being made. Congress has had and will need to continue to have a central role in improving agencies' human capital approaches. The basic principles underlying the legislative proposals Congress is considering have merit. Collectively, these proposals would make a positive contribution to addressing high-risk human capital issues and advancing the needed cultural transformation across the federal government. At the same time, additional safeguards should be considered by Congress in order to prevent potential abuse. Moreover, certain additional proposals should be considered as part of this legislative package.

Looking forward, the time has come to seriously explore more market- and performance-based approaches to federal pay. As part of this exploration, we need to continue to experiment with providing agencies with the flexibility to pilot alternative approaches to setting pay and linking pay to performance. A more performance-based approach to Senior Executive Service pay would be a good place to start. The bottom line, however, is that in order to receive any additional performance-based pay flexibility for broad-based employee groups, agencies should have to demonstrate that they have modern, effective, credible, and validated performance management systems, with adequate safeguards, including reasonable transparency and appropriate accountability mechanisms in place, that are capable of supporting such decisions. Unfortunately, most federal agencies are a long way from meeting this requirement. GAO, on the other hand, has taken numerous steps to meet this requirement and is well positioned to experiment with additional pay for performance flexibility.

Chairman Voinovich, Chairwoman Davis, and Members of the Subcommittees:

It is a great pleasure to appear before you today to discuss the federal government's greatest asset—its people. Federal employees represent the government's knowledge base, drive its capacity to perform, and define its character. The early years of the 21st century are proving to be a period of profound transition for our world, our country, and our government. This transition is being driven by a number of key trends, including global interdependence; diverse, diffuse, and asymmetrical security threats; changes in the nature of the economy; rapidly evolving science and technologies; dramatic shifts in the age and composition of our population; important quality of life issues; and evolving governance structures and concepts. As the nation and government policymakers grapple with the challenges presented by these evolving trends, they do so in a time when increasing fiscal pressures created by the retirement of the baby boom generation and rising health care costs threaten to overwhelm the nation's fiscal future.[1]

In response to the emerging trends and long-term fiscal challenges the government faces in the coming years, we have an opportunity—and a responsibility—to create highly effective, performance-based organizations that can strengthen the nation's ability to meet the challenges of the 21st century and reach beyond our current level of achievement. Leading public sector organizations here and abroad have found that strategic human capital management must be the centerpiece of any serious government transformation effort. Contrary to the assertions of some public officials and other parties, federal workers can be an important part of the solution to our overall transformation effort. Federal workers are not the problem. They are trapped in and encumbered by outdated and ineffective policies and procedures that must be changed. In addition, they need more consistent and enlightened leadership to show the way forward. They also need help from Congress.

Since we designated strategic human capital management as a governmentwide high-risk area in January 2001, Congress, the administration, and agencies have taken a number of steps to address the federal government's human capital shortfalls. In fact, and this is my major

[1]U.S. General Accounting Office, *Major Management Challenges and Program Risks: A Governmentwide Perspective*, GAO-03-95 (Washington, D.C.: January 2003).

point today, I believe that we have made more progress in addressing the government's long-standing human capital challenges in the last 2 years than in the last 20, and I am confident that we will make more progress in the next 2 years than we have made in the last 2 years.

Key Actions Have Been Taken over the Last 2 Years to Address Human Capital Weaknesses

When we placed strategic human capital management on our high-risk list back in January 2001, as a governmentwide high-risk challenge, we noted that after a decade of government downsizing and curtailed investments of human capital, it had become increasingly clear that federal human capital strategies were not appropriately constituted to adequately meet the current and emerging needs of the government and its citizens.[2] We provided many examples of where human capital shortfalls were eroding the ability of agencies—and threatening the ability of other agencies—to effectively, efficiently, and economically perform their missions. In short, strategic human capital management was a pervasive challenge across the federal government.

We noted that while legislation and other actions have been put in place since 1990 to address most major management areas, human capital was the critical missing link in reforming and modernizing the federal government's management practices. Our high-risk report pointed to actions that federal leaders and their agencies, the Office of Personnel Management (OPM), the Office of Management and Budget (OMB), and Congress needed to take to address high-risk human capital issues.

Since then, a real and growing momentum for change has become evident.

- In August 2001, President Bush placed the strategic management of human capital at the top of the administration's management agenda.
- In October 2001, OMB notified agencies that they would be assessed against standards for success for each part of the *President's Management Agenda* (PMA), including the strategic management of human capital. The first agency assessment was made public in February 2002 as part of the President's proposed fiscal year 2003 budget. Subsequent assessments were later released in June and

[2]U.S. General Accounting Office, *High-Risk Series: An Update*, GAO-01-263 (Washington, D.C.: January 2001).

September 2002 and in January 2003, reporting on both the status and progress of agency efforts.

- In December 2001, OPM released a human capital scorecard to assist agencies in responding to the human capital standards for success in the PMA.

- In March 2002, we released *A Model of Strategic Human Capital Management*, designed to help agency leaders determine how well they integrate human capital considerations into daily decision making and planning for the program results they seek to achieve.[3]

- In April 2002, the Commercial Activities Panel, which I was honored to chair, sought to elevate attention to human capital considerations in making sourcing decisions.

- In October 2002, OMB and OPM approved revised standards for success in the human capital area of the PMA, reflecting language that was developed in collaboration with GAO. To assist agencies in responding to the revised PMA standards, OPM released the *Human Capital Assessment and Accountability Framework*.

- In the fall of 2002, OPM began realigning its organizational structure and appointed four new associate directors with proven human capital expertise to lead federal efforts as part of a larger OPM effort to be more customer-focused.

- In November 2002, Congress passed the Homeland Security Act of 2002, which created the Department of Homeland Security (DHS) and provided the department with significant flexibilities to design a modern human capital management system. The effective development and implementation of these flexibilities will prove essential to the performance and accountability of DHS, as well as provide a potential model for Congress to consider for wider application governmentwide.

- The Homeland Security Act of 2002 also included additional significant provisions relating to governmentwide human capital management, such as direct hire authority, the ability to use categorical ranking in the

[3]U.S. General Accounting Office, *A Model of Strategic Human Capital Management*, GAO-02-373SP (Washington, D.C.: Mar. 15, 2002).

hiring of applicants instead of the "rule of three," the creation of chief human capital officer (CHCO) positions and a CHCO Council, an expanded voluntary early retirement and "buy-out" authority, a requirement to discuss human capital approaches in Government Performance and Results Act plans and reports, and a provision allowing executives to receive their total performance bonus in the year in which it is awarded.

- Congress has further underscored the consequences of human capital weaknesses in federal agencies and pinpointed potential solutions through its oversight process and a range of hearings.

Strategic Human Capital Management Remains at High Risk

Despite the building momentum for comprehensive and systematic reforms, it remains clear that today's federal human capital strategies are not yet appropriately constituted to meet current and emerging challenges or to drive the needed transformation across the federal government. The basic problem is the long-standing lack of a consistent strategic approach to marshaling, managing, and maintaining the human capital needed to maximize government performance and assure its accountability. Specifically, as detailed in our January 2003 high-risk volume on human capital, agencies continue to face challenges in four overarching areas:[4]

- **Leadership:** Top leadership in agencies must provide the committed and inspired attention needed to address human capital and related organization transformation issues.
- **Strategic human capital planning:** Agencies' human capital planning efforts need to be more fully and demonstrably integrated with mission and critical program goals.
- **Acquiring, developing, and retaining talent:** Additional efforts are needed to improve recruiting, hiring, professional development, and retention strategies to ensure that agencies have the needed talent.
- **Results-oriented organizational cultures:** Agencies continue to lack organizational cultures that promote high performance and

[4]U.S. General Accounting Office, *High-Risk Series: Strategic Human Capital Management*, GAO-03-120 (Washington, D.C.: January 2003).

accountability and empower and include employees in setting and accomplishing programmatic goals.

Building on the Current Momentum Can Create Lasting Change

Committed and sustained leadership and persistent attention on behalf of all interested parties will continue to be essential to building on the progress that has been and is being made, if lasting reforms are to be successfully implemented. First and foremost, individual federal agencies need to more consistently adopt a strategic approach to the use of their people. This requires persistent leadership and a long-term commitment; aligning human capital approaches with the accomplishment of agency goals; implementing recruiting, hiring, training, professional development, performance reward, and retention approaches that foster mission accomplishment; and instilling a results-oriented organizational culture. Agencies' CHCOs will need to play a particularly important role in this regard. The careful and strategic selection of these officials is therefore critical. The CHCO is not fundamentally an "HR" or personnel administration position, although knowledge in those areas is important. Rather, agency CHCOs should have the ability, experience, vision, attributes, and credibility needed to successfully integrate human capital considerations with program goals and to play a major leadership role in driving agency transformation efforts. Agencies also must make effective use of the tools and flexibilities that Congress has provided. To assist agencies in this regard, and at the request of Chairman Voinovich, Ranking Minority Member Durbin, and other Members of Congress, we issued a report last December detailing the practices that agencies need to employ to effectively use human capital flexibilities.[5] These practices are shown in figure 1.

[5]U.S. General Accounting Office, *Human Capital: Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces*, GAO-03-2 (Washington, D.C.: Dec. 6, 2002).

Figure 1: Key Practices for Effective Use of Human Capital Flexibilities

Plan strategically and make targeted investments	• Obtain agency leadership commitment • Determine agency workforce needs using fact-based analysis • Develop strategies that employ appropriate flexibilities to meet workforce needs • Make appropriate funding available
Ensure stakeholder input in developing policies and procedures	• Engage the human capital office • Engage agency managers and supervisors • Involve employees and unions • Use input to establish clear, documented, and transparent policies and procedures
Educate managers and employees on the availability and use of flexibilities	• Train human capital staff • Educate agency managers and supervisors on existence and use of flexibilities • Inform employees of procedures and rights
Streamline and improve administrative processes	• Ascertain the source of existing requirements • Reevaluate administrative approval processes for greater efficiency • Replicate proven successes of others
Build transparency and accountability into the system	• Delegate authority to use flexibilities to appropriate levels within the agency • Hold managers and supervisors directly accountable • Apply policies and procedures consistently
Change the organizational culture	• Ensure involvement of senior human capital managers in key decision-making processes • Encourage greater acceptance of prudent risk taking and organizational change • Recognize differences in individual job performance and competencies

Source: GAO.

The central management agencies—OPM and OMB—also have continuing vital roles to play. As the agency responsible for leading human capital management governmentwide, OPM plays a central role in helping agencies tackle the broad range of human capital challenges that are at the root of transforming what agencies do, how they do it, and with whom they partner. As detailed in our *Performance and Accountability Series* volume on OPM, our work and the work of others continues to show that agencies need and want greater leadership from OPM in helping them to address their human capital challenges, especially in identifying new human capital flexibilities, removing obstacles from the federal hiring process, and assisting agency workforce planning efforts.[6] Opportunities exist for OPM to be more vigorous in responding to a number of critical program challenges, such as applicant examination, staffing, and compensation approaches. In addition, OPM shares responsibility with agencies for

[6]U.S. General Accounting Office, *Major Management Challenges and Program Risks: Office of Personnel Management*, GAO-03-115 (Washington, D.C.: Jan. 30, 2003).

ensuring that human capital practices are carried out in accordance with merit system principles and other national goals. Effective and strategic oversight of agencies' systems is even more critical today because an increasing number of agencies are seeking and obtaining exemptions from traditional civil service rules at the same time that human capital staffs responsible for overseeing these activities have dwindled.

In response to these ongoing challenges, OPM has taken a number of important actions. First, OPM realigned its organizational structure and workforce to create a new, flexible structure that seeks to "de-stovepipe" the agency; enable it to be more responsive to its primary customers, federal departments and agencies; and focus on the agency's core mission. In November 2002, OPM's Director appointed four new associate directors with proven human capital expertise to lead the organization. OPM also has the key role in leading the administration's efforts to address strategic human capital management, a critical part of the PMA. OPM also published two reports in 2001 to increase agencies' awareness of available human capital flexibilities, and released a report on federal compensation practices in April 2002. A major initiative begun in the spring of 2002 is designed to improve the hiring process. Furthermore, OPM is addressing its oversight challenge in part by encouraging agencies to develop and maintain internal accountability systems in line with its *HRM Accountability Standards*. OPM recently released the results of its 2002 Federal Human Capital Survey. This survey is providing a wealth of important information on the views and attitudes of federal employees. The results demonstrate the importance of routinely surveying employees across the federal government through the Federal Human Capital Survey or a similar survey. Consideration should be given to exploring ways to assure that these surveys will be conducted on a periodic basis. Finally, OPM is at the center of the DHS's efforts to create a modern personnel system that serves the needs of the department and could serve as a potential model for others.

The designation of human capital as the first item on the PMA and the supporting standards for success have raised the profile of human capital issues on OMB's agenda. As OMB and the agencies learn to evaluate themselves against the standards and implement policies to make improvements, OMB will need to ensure that the standards are consistently and appropriately applied while assessing agencies' progress in managing their human capital. Perhaps most important, OMB support will be needed as agencies identify targeted investment opportunities to address human capital shortfalls.

Congressional Leadership Continues to Be Critical

Congress has had and will need to continue to have a central role in improving agencies' human capital approaches. Traditionally, Congress has been an institutional champion in improving management of executive agencies across the government. Support and pressure from Congress has been indispensable to instituting and sustaining management reforms at specific agencies. Its confirmation, oversight, appropriations, and legislative responsibilities provide Congress with continuing opportunities to ensure that agencies recognize their responsibilities to manage people for results. For example, as Chairman Voinovich has often stressed, the Senate has the opportunity during the confirmation process to articulate its commitment to sound federal management by exploring how prospective nominees plan to make a link between mission accomplishment and human capital policies.[7] As part of the oversight and appropriations process, Congress can continue to examine whether agencies are managing their human capital to improve programmatic effectiveness and to encourage agencies to use the range of appropriate flexibilities available under current law.

Targeted Human Capital Reforms

Congress will also play a critical role in determining the nature and scope of any additional human capital flexibilities that will be made available to agencies, while assuring that adequate safeguards are incorporated to prevent abuse. Congress also has the responsibility to ensure the reasonableness and adequacy of financial resources that are made available to agencies.

Congress is currently considering several pieces of legislation to help agencies address their current and emerging human capital challenges. I believe that the basic principles underlying these legislative proposals have merit and collectively they would make a positive contribution to addressing high-risk human capital issues and advancing the needed cultural transformation across the federal government. I also believe that certain additional safeguards and provisions should be considered by Congress. We look forward to working with the subcommittees as you consider these and related legislative initiatives. Today, I will provide observations on selected provisions of the various proposals.

[7]Toward this end, we developed a set of questions for political appointees that the Senate may use during the confirmation process. See U.S. General Accounting Office, *Confirmation of Political Appointees: Eliciting Nominees' Views on Leadership and Management Issues*, GAO/GGD-00-174 (Washington, D.C.: Aug. 11, 2000).

The Senior Executive Service Reform Act of 2003

The proposed Senior Executive Service Reform Act of 2003 includes a number of important reforms. For example, the legislation would move to a single Senior Executive Service (SES) pay range, increase the pay cap, and link SES pay more closely to performance. I strongly believe that these are worthwhile reforms that must be considered together, as they are in this proposed legislation. The legislation seeks to link pay and performance of senior executives by replacing the current system of six grades with a single pay band. Agencies would have flexibility to set basic pay for SES members at any amount within the range plus locality pay, to a total annual salary that may not exceed level II of the Executive Schedule. In addition, agencies could employ a broadbanding approach to SES pay should they so desire. This important change would provide agencies with needed flexibility to set SES pay in a way that reflects the reality of the great diversity in the work that members of the SES do rather than using a set of rigid SES pay grades. In fact, I have the authority to adopt such an approach in setting the pay for the SES in the GAO, and we plan to do so.

The legislation would raise the highest basic pay rate for an SES member from the current maximum of $134,000 (level IV of the Executive Schedule) to $142,500 (level III of the Executive Schedule). SES basic pay currently ranges from $116,500 to $134,000, before locality pay is included. The problems of SES pay compression are real and must be addressed, with over 60 percent of SES members being at the current cap.

The SES needs to lead the way in the federal government's effort to better link pay to performance. The legislation would require that agencies base their SES pay decisions on "individual performance, contribution to the agency's performance, or both." We have reported that there are significant opportunities to strengthen efforts to hold senior executives accountable for results.[8] In particular, more progress is needed in explicitly linking senior executive expectations for performance to results-oriented organizational goals, fostering the necessary collaboration both within and across organizational boundaries to achieve results, and demonstrating a commitment to lead and facilitate change. These expectations for senior executives will be critical to keep agencies focused on transforming their cultures to be more results-oriented, less hierarchical, more integrated, and

[8]U.S. General Accounting Office, *Results-Oriented Cultures: Using Balanced Expectations to Manage Senior Executive Performance*, GAO-02-966 (Washington, D.C.: Sept. 27, 2002).

externally focused and thereby be better positioned to respond to emerging internal and external challenges, improve their performance, and assure their accountability.

Agencies should be required to have modern, effective, credible, and validated performance management systems in place before they are granted authority to better link pay to performance for broad-based employee groups. In this regard, Congress should consider providing specific statutory standards that agencies' performance management systems would be required to meet before OPM could approve any such pay for performance effort. Our own experience in implementing such reforms in GAO and the practices of other leading organizations that I will discuss shortly could serve as a starting point for that consideration.

Finally, the legislation's provision to allow agencies to credit nonfederal work experience for purposes of providing annual leave recognizes that the federal government must effectively recruit in a larger labor market. The increasing number of retirement-eligible federal employees is most concentrated in mid- and senior- level positions. To attract top talent, both at the entry and at midcareer levels, it is important to offer applicants an attractive compensation and benefits package that is not structured entirely on a model that assumes a 30-year career of federal service. Simply stated, this provision recognizes the reality of increased mobility in the workforce and the need to modernize our annual leave provisions to attract and retain experienced people with critical skills.

The Federal Workforce Flexibility Act of 2003

The Federal Workforce Flexibility Act of 2003 would expand the authority to use and increase the amount of recruitment and retention bonuses. For example, the legislation would allow the payment of a recruitment bonus of up to 100 percent of an employee's annual salary for critical, hard-to-fill positions, subject to approval by the agency. The legislation also expands the use of recruitment bonuses to employees currently employed in another federal agency and retention bonuses to employees who might leave to go to another federal agency. Previously, recruitment bonuses could only be paid to employees coming from outside the federal government and retention bonuses could only be paid to employees likely to leave federal employment altogether. We support providing agencies with these types of additional tools and flexibilities to attract and retain needed staff as long as such payments are targeted, based on a business need, and are implemented with adequate safeguards. In that regard,

Congress should consider capping the number or percentage of employees in an agency who would be eligible for such payments.

As you know, the federal government faces a looming wave of employees who will be eligible for retirement. Agencies need succession planning programs to ensure that knowledge is transferred from one generation of employees to another. An approach that should be explored would be to allow "phased retirements." There are a number of ways that a phased retirement program could work; the legislation seeks to provide one option for employees who would like to work part time as they end their federal careers by prorating retirement annuities for the period of service that was performed on a part-time basis, thus removing a current disincentive to such part-time work.

The Federal Workforce Flexibility Act of 2003 would also expand the authority to conduct personnel demonstration projects. Such projects, authorized by OPM under the Civil Service Reform Act of 1978, provide a means for testing and introducing improvements in governmentwide human resources management systems. To become a demonstration project, a federal agency obtains authority from OPM to waive existing federal human resources management laws and regulations in Title 5 and propose, develop, test, and evaluate interventions for its own human resources management system that can help shape the future of federal human resource management.[9]

As a general rule, current law limits the size of a demonstration project to 5,000 employees and the life of a project to a 5-year time limit. The legislation would eliminate the cap on the number of employees who could participate in a demonstration project and allow the projects to have up to a 10-year life span. This more flexible approach to demonstration projects is consistent with the approach Congress took in 1996 in authorizing the Department of Defense civilian acquisition workforce demonstration project to expand the number of personnel eligible to participate from the statutory cap of 5,000 to a maximum of 95,000 and extend the project's length from a 5-year time limit to 13 years.

[9]No waivers of law are permitted in areas of employee leave, employee benefits, equal employment opportunity, political activity, merit system principles, or prohibited personnel practices.

Demonstration projects' testing, evaluation, and reporting requirements have provided invaluable lessons learned to other federal organizations. Much of the federal government's knowledge and real-world experience with performance-based pay reform has been obtained through demonstration projects. In fact, of the 17 demonstration projects that have been implemented over the past 25 years, 12 have tested some form of linking compensation to performance. In addition, a demonstration project done at the Department of Agriculture provided an important test of using categorical ranking as part of the applicant selection process and was therefore useful to the Congress in deciding to expand such authorities governmentwide as part of the Homeland Security Act of 2002.

The Federal Workforce Flexibility Act of 2003's reforms to enhance agencies' training and career development programs are also positive steps that should help improve human capital management. The legislation calls for agencies to evaluate their training programs and plans to ensure that they are linked to strategic and performance goals and contribute to achieving the agency's mission. Such evaluations of training and development efforts are important in demonstrating how these efforts help develop employees and improve the agency's performance. As part of a balanced approach, training and development evaluations should consider organizational results and feedback from customers and employees. The strategic evaluation requirement in this legislation should help move agencies away from an orientation on activities or processes (such as the number of participants, courses offered, and hours of training provided), and instead use information on how training and development efforts (1) contribute to improved performance, (2) strengthen capacity to meet new and emerging challenges, and (3) reduce the cost of poor performance.

The legislation focuses agencies on several specific areas of importance, including developing succession programs and informing managers about effective strategies to address performance problems, mentor employees, and improve performance and productivity. We have noted that linking an executive development program and comprehensive succession planning to agency goals and objectives can help foster a committed leadership team. Further, calling for agencies to identify and share effective human capital strategies can help improve individual and organizational performance and further efforts to transform the cultures of government agencies. At Chairman Voinovich's request, this fall we will report on selected agencies' efforts to design effective training and development programs.

Generating Opportunity by Forgiving Educational Debt Service Act of 2003

Congress previously passed legislation that allows agencies to set up programs to repay the student loans of federal employees in order to attract or keep highly qualified individuals. Several agencies, including GAO, have begun such programs and have found them to be valuable in attracting and retaining high-quality talent. These payments are currently included in gross income for federal tax purposes. However, the Generating Opportunity by Forgiving Educational Debt Service Act of 2003 (GOFEDS) would make these payments nontaxable. GOFEDS would therefore make payments by the federal government generally comparable to loan forgiveness programs in use by some educational institutions and nonprofit organizations. We believe that this provision has great merit. It would help to further leverage existing student loan repayment program dollars and would help agencies in their efforts to attract and retain top talent. Obviously, Congress will need to balance the federal human capital benefits of this provision as a tax expenditure with overall federal tax policy. Moreover, Congress should consider how GOFEDS could be implemented in such a way that the tax forgiveness provisions do not obscure the true costs of agency operations.

The Presidential Appointments Improvement Act of 2003

The Presidential Appointments Improvement Act of 2003 would, among other things, require each executive agency to identify the number of presidentially appointed, Senate-confirmed positions and the layers of those positions. Related to this provision, last September I convened a roundtable to discuss the Chief Operating Officer (COO) concept and how it might apply within selected federal departments and agencies as one strategy to address certain systemic federal governance and management challenges.[10] There was considerable discussion on whether the senior management official in an agency should be presidentially appointed, requiring Senate confirmation, while Senate confirmation would not be required for those officials who lead specific management functions (e.g., financial management, information technology, human capital) and who

[10]U.S. General Accounting Office, *Highlights of a GAO Roundtable: The Chief Operating Officer Concept: A Potential Strategy to Address Federal Governance Challenges*, GAO-03-192SP (Washington, D.C.: Oct. 4, 2002). The invited participants were generally individuals with current or recent executive branch leadership responsibilities, significant executive management experience, or both.

report to that senior management official. While there was interest in considering such an arrangement, it was also acknowledged that it would likely require amending existing legislation, for example the Chief Financial Officers Act, and, therefore, would need careful analysis to ensure that any legislative changes result in augmented attention to management issues and do not inadvertently lead to a reduction in the authority of key management officials and/or the prominence afforded a particular management function.

An additional suggestion made at the roundtable that Congress may wish to consider would be to allow senior management officials in each agency to assume full authorities and responsibilities up to or for a specified period of time once they were formally nominated but before their confirmation. However, it was widely recognized that such an approach would be viable only if the senior management position was restricted to the professional and nonpartisan "good government" responsibilities that are fundamental to effectively executing any administration's program agenda and did not entail program policy-setting authority. Furthermore, should Congress decide to adopt the COO concept noted above and not make subject certain management officials to the confirmation process (e.g., the Chief Financial Officer and the Chief Information Officer), the need for this flexibility would be greatly reduced.

More generally, the roundtable's overall purpose was to discuss the COO concept and how it might apply within selected federal departments and agencies. The roundtable discussion neither sought nor achieved a consensus on the COO concept. However, it does appear that there was general agreement on a number of important overall themes that can serve as a basis for subsequent analysis, discussion, and consideration. These generally agreed-upon themes provide a course for action.

- Elevate attention on management issues and transformational change. The nature and scope of the changes needed in many agencies require the sustained and inspired commitment of the top political and career leadership. There is no substitute for top leadership involvement, including that of the President, through for example, the establishment of a governmentwide management agenda. Top leadership attention is essential to overcome organizations' natural resistance to change, marshal the resources needed to implement change, and build and maintain the organizationwide commitment to new ways of doing business.

- Integrate various key management and transformation efforts. By their very nature, the problems and challenges facing agencies are crosscutting and thus require coordinated and integrated solutions. However, the federal government too often places management responsibilities (for example, information technology, human capital, or financial management) into various "stovepipes" and fails to implement transformational change management initiatives in a comprehensive, ongoing, and integrated manner. While officials with management responsibilities often have successfully worked together, there needs to be a single point within agencies with the perspective and responsibility—as well as authority—to ensure the successful implementation of functional management and, if appropriate, transformational change efforts. At the same time, it is not practical to expect that the deputy secretaries, given the competing demands on their time in helping the secretaries execute the President's policy and program agendas, will be able to consistently undertake this vital integrating responsibility. Moreover, while many deputy secretaries may be nominated based in part on their managerial experience, it has not always been the case and, not surprisingly, the management skills, expertise, and interests of the deputy secretaries have always varied and will continue to vary.

- Institutionalize accountability for addressing management issues and leading transformational change. The management weaknesses in some agencies are deeply entrenched and long-standing and will take years of sustained attention and continuity to resolve. In addition, making fundamental changes in agencies' cultures will require a long-term effort. The experiences of successful major change management initiatives in large private and public sector organizations suggest that it can often take at least 5 to 7 years until such initiatives are fully implemented and the related cultures are transformed in a sustainable manner. In the federal government, the frequent turnover of the political leadership has often made it difficult to obtain the sustained and inspired attention required to make needed changes.

Implementing Market-Based and Results-Oriented Pay Reforms

Looking forward, Congress should consider making comprehensive legislative reforms to existing civil service laws, taking into account the extent to which traditional approaches make sense in the current and future operating environments. In that regard, there is a growing understanding that we need to fundamentally rethink our approach to federal pay and develop an approach that places a greater emphasis on a person's knowledge, skills, position, and performance rather than the

passage of time, the rate of inflation, and geographic location. The OPM Director's White Paper on modernizing federal pay, issued last April, amply demonstrated that the current federal pay system was designed for the heavily clerical and low graded workforce of the 1950s rather than today's knowledge-based government. Similarly, the National Commission on the Public Service, chaired by Paul Volcker, observed that agencies need greater freedom to connect pay both to the market and to performance. In short, as the nature of the federal workforce has changed, so too must our pay system if we are to effectively compete for top talent and create incentives for both individual and institutional success.

Under the current federal pay system, the overwhelming majority of each year's increase in federal employee pay is largely unrelated to an employee's knowledge, skills, position, or performance. In fact, over 80 percent of the cost associated with the annual increases in federal salaries is due to longevity and the annual pay increase. One approach that has been tested and that I believe deserves wider consideration is to reserve the annual pay adjustment for only those employees who receive an acceptable performance rating. This would send a clear message to the overwhelming majority of federal employees that their contributions are valued, and those few who are not contributing will not be rewarded for their lack of effort. More generally, current federal pay gaps vary by the nature of the person's position and yet the current method for addressing the pay gap assumes that it is the same throughout government.

We must move beyond this outdated, "one-size-fits-all" approach to paying federal employees and seriously explore more market- and performance-based approaches to federal pay. As part of this exploration, we need to continue to experiment with providing agencies with the flexibility to pilot alternative approaches to setting pay and linking pay to performance. The greater use of "broadbanding" is one of the options that should be considered as part of a broader discussion of pay reform. In the short term, Congress should explore the benefits of (1) providing OPM with additional flexibility that would enable it to grant governmentwide authority for all agencies (i.e., class exemptions) to use broadbanding for certain critical occupations and/or (2) allowing agencies to apply to OPM (i.e., case exemptions) for broadbanding authority for their specific critical occupations. However, agencies should be required to demonstrate to OPM's satisfaction that they have modern, effective, credible, and validated performance management systems before being able to adopt broader pay for performance systems for non-SES personnel. In this regard, Congress should consider providing specific statutory standards that agencies must

meet before OPM would be able to grant an exemption from existing Title 5 requirements.

As with all pay for performance efforts, adequate safeguards, including reasonable transparency and appropriate accountability mechanisms, would need to be in place to ensure fairness, prevent politicalization, and prevent abuse. Such safeguards would include ensuring that an agency's career leadership and managers have significant roles in performance-related pay decisions and that employees have central roles in the design and implementation of the system to build their sense of ownership for the system. In our work looking at leading performance management efforts here and abroad, we have found that the involvement of employees is critical to the success of such initiatives.[11] Leading organizations consulted a wide range of stakeholders early in the process, obtained feedback directly from employees, and engaged employees' unions or associations.

The bottom line is that in order to receive any additional performance-based pay flexibility for broad-based employee groups, agencies should have to demonstrate that they have the modern, effective, credible, and validated performance management systems in place that are capable of supporting such decisions. Unfortunately, most federal agencies are a long way from meeting this requirement. As I noted earlier, the SES needs to lead the way in the federal government's effort to better link pay to performance. Given the state of agencies' performance management systems, Congress should consider starting federal results-oriented pay reform with the SES. Agencies should be granted the authority to implement additional pay for performance programs only after they have demonstrated that they have appropriate performance management systems and adequate safeguards in place. Building such systems and safeguards will likely require making targeted investments in agencies' human capital programs, as GAO's own experience has shown. In that regard, Congress and the Administration should consider how incentives can be provided to encourage agencies to modernize their performance management systems. This could include a potential governmentwide fund for such purposes, which could be allocated based on specific business case proposals by individual agencies. This approach could also help to

[11]See for example, U.S. General Accounting Office, *Results-Oriented Cultures: Insights for U.S. Agencies from Other Countries' Performance Management Initiatives*, GAO-02-862 (Washington, D.C.: Aug. 2, 2002).

facilitate implementation of the high-performing organization (HPO) concept recommended by the Commercial Activities Panel that I chaired.

A report we prepared at the request of Chairman Voinovich and Chairwoman Davis that was released last month shows specific practices that leading public sector organizations both here in the United States and abroad have used in their performance management systems to link individual performance and organizational success.[12] These practices include the following:

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

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

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

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

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

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

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

and transparent performance management systems with adequate safeguards.

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

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

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

GAO's Commitment to Lead by Example

We in GAO believe it is our responsibility to lead by example. We seek to be in the vanguard of the federal government's overall transformation efforts, including in the critically important human capital area. We are clearly in the lead at the present time, and we are committed to staying in the lead. We fully recognize that our people are our most valuable asset, and it is only through their combined efforts that we can effectively serve our clients and our country. By managing our workforce strategically and focusing on achieving positive and measurable results, we are helping to maximize our own performance and ensure our own accountability. By doing so, we also hope to demonstrate to other federal agencies that they can make similar improvements in the way they manage their people.

We have identified and made use of a variety of tools and flexibilities, some of which were made available to us through the GAO Personnel Act of 1980 and our calendar year 2000 human capital legislation, but most of which are available to all federal agencies. The most prominent change in human capital management that we implemented as a result of the GAO Personnel Act of 1980 was a broadbanded pay-for-performance system. The primary goal of this system is to base employee compensation primarily on the knowledge, skills, and performance of individual employees. It also provides managers flexibility to assign employees in a manner that is more suitable to multi-tasking and the full use of staff. Under our current

broadbanded system, analyst and analyst-related staff in Grades 7 through 15 were placed in three bands. While our general experience has been positive, we expect to modify our banded system in the future based on our experience to date.

In January 2002, we implemented a new competency-based performance management system that is intended to link employee performance and our strategic plan and agency core values. It includes 12 competencies that our employees overwhelmingly validated as the keys to meaningful performance at GAO. (See fig. 2.) Modernizing performance management systems in the federal government is essential to the overall government transformation effort. Importantly, doing so can be accomplished without any additional legislation.

Figure 2: GAO's Competency-Based Model

Achieving results
Maintaining client and customer focus
Developing people
Thinking critically
Improving professional competence
Collaborating with others
Presenting information orally
Presenting information in writing
Facilitating and implementing change
Representing GAO
Investing resources
Leading others

Source: GAO.

Our October 2000 legislation gave us additional tools to realign our workforce in light of mission needs and overall budgetary constraints; correct skills imbalances; and reduce high-grade, managerial, or supervisory positions without reducing the overall number of GAO employees. This legislation allowed us to create a technical and scientific career track at a compensation level consistent to the SES. It also allowed

us to give greater consideration to performance and employee skills and knowledge in any reduction-in-force actions.

Since the legislation was enacted, we have established agency regulations and offered voluntary early retirement opportunities. Once employees registered their interest in participating in the program, we considered a number of factors, including employee knowledge, skills, performance, and competencies; the organizational unit or subunit in which an employee worked; an employee's occupational series, grade, or band level, as appropriate; and the geographic location of the employee. As authorized by the 2000 legislation, employee performance was just one of many factors we considered when deciding which employees would be allowed to receive the incentives. However, let me assure you, we did not use performance to target certain individuals. Early retirement was granted to 52 employees in fiscal year 2002 and 24 employees in fiscal year 2003. Our annual performance and accountability reports have provided additional information on our use of this authority. As required by the 2000 legislation, we will shortly be providing Congress a more comprehensive assessment of our use of the authorities granted to us under the act.

We are also using many recruiting flexibilities that are available to most agencies, including an extensive campaign to increase our competitiveness on college campuses and extending offers of employment during the fall semester to prospective employees who will come on board the following spring and summer. We are also using our internship program in a strategic fashion, and we often offer permanent positions to GAO interns with at least 10 weeks of highly successful work experience. Moreover, we are building and maintaining a strong presence of both senior executives and recent graduates on targeted college campuses. We have also taken steps to streamline and expedite our hiring process. Even after we hire good people, we need to take steps to retain them. We have taken a number of steps to empower and invest in our employees. For example, we have active employee feedback and suggestion programs. In addition, we implemented a student loan repayment assistance program for employees who have indicated interest and are willing to make a 3-year commitment to staying with the agency.

Overall, we have implemented a number of human capital initiatives, including the following, some of which are relatively recent and some of which are long-standing:[13]

- Prepared a human capital profile and needs assessment to understand employee demographics and distribution.
- Conducted agencywide, confidential, and web-based employee surveys in 1999 and 2002 to understand the status and progress of the agency and the areas in which we need to improve.
- Completed a knowledge and skills inventory for all employees.
- Achieved a democratically elected Employee Advisory Council to facilitate open communication and direct input from line employees to the Comptroller General and other GAO senior leaders on matters of mutual interest and concern.
- Conducted an employee preference survey so that employees could be given the opportunity to work in the areas that interest and energize them in light of our institutional needs.
- Implemented an Executive Candidate Development Program to prepare candidates for assignments in the SES.
- Developed and implemented a strategy to place more emphasis on diversity in campus recruiting.
- Initiated a Professional Development Program for newly hired GAO analysts to help them transition and progress.
- Began developing a core training curriculum to directly link and support our validated core competencies.
- Provided an on-site child care center called "Tiny Findings" and a wellness and fitness center.

[13]For more information on these efforts, see *Human Capital: Taking Steps to Meet Current and Emerging Human Capital Challenges*, GAO-01-965T (Washington, D.C.: July 17, 2001).

- Implemented additional employee-friendly benefits such as business casual dress, flextime, and public transportation subsidies.
- Implemented a program to reimburse GAO employees for the cost incurred in pursuit of relevant professional certifications.
- Used recruitment bonuses, retention allowances, and student loan repayment assistance to attract and retain employees with specialized skills.
- Implemented a new "state of the art" performance appraisal system that is linked to our strategic plan and based on key competencies, which have been validated by our employees. This new system has been implemented for analysts. This system is being adapted for our attorneys, and we have begun modifying the system for our administrative professional and support staff.

Many of the above initiatives required one-time investments to make them a reality. We worked with the Congress to present a business case for funding a number of these initiatives. Fortunately, the Congress has supported these and other GAO transformation efforts. The result is a stronger, better positioned, more effective, results-oriented, and respected GAO. As we engage in these changes, we also know that we are not perfect and we never will be. This is a work-in-progress for us as it is for others. In fact, we are constantly evaluating our internal efforts, seeking to learn from others, and making refinements as we go along. In that regard and as you know, we expect in the coming weeks to be formally approaching Congress with recommendations to provide us with additional statutory authorities to enable us to better manage our people. The legislation we plan to recommend would, among other things, facilitate GAO's continuing efforts to recruit and retain top talent, develop a more performance-based compensation system, help realign our workforce, and facilitate our succession planning and knowledge transfer efforts. We believe that these authorities will strengthen our efforts to serve Congress and provide benefits to the American people. As has been the case in the past, we also expect that our use of these authorities will provide valuable lessons to Congress and agencies on how human capital flexibilities can be used in a context that helps an organization achieve its missions while still ensuring that adequate safeguards, including reasonable transparency and appropriate accountability mechanisms, are in place to prevent abuse.

Summary

When we placed strategic human capital management on our high-risk list in 2001, we all knew that successfully addressing human capital challenges would not be quick nor easy. Due to the combined efforts of Congress, OPM, OMB, the agencies, federal employees, and others, we have made a great deal of progress over the last 2 years. But more should be done. Comprehensive human capital legislative reforms will likely be needed, but agency leaders must not wait for them to happen. Congress has already provided much of the authority agencies need. Therefore, the first step toward meeting the government's human capital challenges is for agency leaders to identify and make use of all the appropriate administrative authorities available to them to manage their people for results. The use of these authorities often will need to be undertaken as part of and consistent with proven change management practices and with adequate safeguards to prevent abuse. The second step, as the subcommittees have made clear, is to consider selected legislative reforms to give agencies additional tools and flexibilities to hire, manage, and retain the human capital they need. These additional flexibilities also should be accompanied with adequate safeguards to prevent abuse. The third step is for all interested parties to work together to identify the kinds of comprehensive legislative reforms that should be enacted in the human capital area over time, with comprehensive pay reform being the likely centerpiece of that effort.

Chairman Voinovich and Chairwoman Davis, this concludes my prepared statement. I would be pleased to respond to any questions that you or other Members of the Subcommittees may have.

Contacts and Acknowledgments

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STATEMENT OF THE HONORABLE DAN G. BLAIR
DEPUTY DIRECTOR
OFFICE OF PERSONNEL MANAGEMENT

at a joint hearing of the

SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT
MANAGEMENT, THE FEDERAL WORKFORCE AND
THE DISTRICT OF COLUMBIA
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

and the

SUBCOMMITTEE ON CIVIL SERVICE AND AGENCY ORGANIZATION
COMMITTEE ON GOVERNMENT REFORM
U.S. HOUSE OF REPRESENTATIVES

on

THE HUMAN CAPITAL CHALLENGE:
OFFERING SOLUTIONS AND DELIVERING RESULTS

APRIL 8, 2003

MR. CHAIRMAN, MADAM CHAIR, AND MEMBERS OF THE SUBCOMMITTEES:

THANK YOU FOR YOUR INVITATION TO TESTIFY THIS MORNING. ON BEHALF OF OFFICE OF PERSONNEL MANAGEMENT (OPM) DIRECTOR KAY COLES JAMES, I AM PLEASED TO PROVIDE THE COMMITTEES WITH AN OVERALL ASSESSMENT OF THE STATE OF THE FEDERAL WORKFORCE. INDEED, THERE IS REASON TO BE QUITE OPTIMISTIC IN THAT REGARD. I BELIEVE THAT THE FEDERAL CIVIL SERVICE IS IN BETTER SHAPE NOW THAN IT WAS JUST TWO YEARS AGO, AND THAT FURTHER IMPROVEMENTS ARE IN PROGRESS. WE HAVE CONGRESS (AND YOU PERSONALLY) TO THANK FOR THAT. WITH YOUR HELP, WE HAVE AN OPPORTUNITY TO MAKE EVEN GREATER STRIDES FORWARD THIS YEAR.

SO, WHERE DO THINGS STAND TODAY, SOME TWO YEARS AFTER THE GENERAL ACCOUNTING OFFICE (GAO) FIRST PUT THE FEDERAL WORKFORCE ON ITS HIGH RISK LIST? BACK THEN, ALMOST ALL OF THE NEWS WAS BAD, AS WERE ALL OF THE PREDICTIONS. FOR EXAMPLE, THE NUMBER OF FEDERAL EMPLOYEES ELIGIBLE TO

RETIRE HAD REACHED AN ALL-TIME HIGH, WITH THE POTENTIAL FOR A DEBILITATING "BRAIN DRAIN" LOOMING LARGE. AT THE SAME TIME, THE SHEER NUMBER OF EMPLOYEES ELIGIBLE TO RETIRE THREATENED TO OUTSTRIP THE PIPELINE OF SKILLED APPLICANTS AVAILABLE TO TAKE THEIR PLACES.

TWO YEARS LATER, THERE IS SOME GOOD NEWS TO REPORT. FIRST, WHILE THE NUMBER OF FEDERAL EMPLOYEES WHO ARE ELIGIBLE FOR RETIREMENT REMAINS HIGH (AND GETTING HIGHER), WE HAVE NOT SEEN THE MASS EXODUS OF TALENT THAT MANY HAD PREDICTED. INDEED, SEPARATION RATES HAVE DECLINED. NO DOUBT THIS IS DUE IN PART TO THE FLAT ECONOMY, BUT OTHER FACTORS ARE AT WORK HERE THAT BODE WELL FOR OUR CIVIL SERVICE AND OUR NATION. FOR EXAMPLE, IN OUR LANDMARK FEDERAL HUMAN CAPITAL SURVEY, OVER NINETY PERCENT OF OUR EMPLOYEES TOLD US THAT THEY THINK THEIR WORK IS VITALLY IMPORTANT, AND A SIMILAR PERCENTAGE SAID THAT THEY BELIEVE THAT THEIR WORK CONTRIBUTES DIRECTLY TO THEIR AGENCY'S MISSION. THESE ARE REMARKABLE NUMBERS, RESULTS THAT OUGHT TO BE THE ENVY OF ANY HIGH-PERFORMING ORGANIZATION IN THE PUBLIC OR PRIVATE SECTOR.

EVEN AS WE SEE IMPROVEMENTS IN THE STRATEGIC MANAGEMENT OF OUR HUMAN RESOURCES, WE MUST STILL DEAL WITH CONSTRAINTS AND UNINTENDED CONSEQUENCES WHICH HAMPER THOSE EFFORTS. FOR EXAMPLE, WHILE RETIREMENTS AND OTHER SEPARATIONS ARE GENERALLY AT MANAGEABLE LEVELS, WE MUST STILL WORK TO ENSURE THAT REPLACEMENTS ARE IN THE PIPELINE.

THE PRESIDENT HAS FOCUSED GOVERNMENT-WIDE ATTENTION ON STRATEGIC MANAGEMENT OF HUMAN CAPITAL, MAKING IT A PRIORITY INITIATIVE IN HIS MANAGEMENT AGENDA. HE HAS DIRECTED OPM TO TAKE THE LEAD RESPONSIBILITY

FOR PROMOTING AND ASSESSING STRATEGIC HUMAN CAPITAL MANAGEMENT THROUGHOUT THE EXECUTIVE BRANCH. WE WILL MEASURE OUR SUCCESS BY THE PROGRESS AGENCIES MAKE IN PLACING THE RIGHT PEOPLE IN THE RIGHT JOBS AND MANAGING THEM IN WAYS THAT HELP ACHIEVE MISSION GOALS. WE KNOW THAT HOW WELL THE GOVERNMENT WORKS DEPENDS ON GOVERNMENT WORKERS. WE KNOW THAT ADHERENCE TO MERIT SYSTEM PRINCIPLES RESULTS IN THE FAIR AND EFFECTIVE MANAGEMENT OF THOSE WORKERS.

OPM, GAO, AND THE OFFICE OF MANAGEMENT AND BUDGET (OMB), HAVE COLLABORATED THIS PAST YEAR TO HELP AGENCIES ADDRESS HUMAN CAPITAL MANAGEMENT MORE STRATEGICALLY, AND THE RESULTS HAVE BEEN IMPRESSIVE. MOST AGENCIES ARE NO LONGER SATISFIED WITH JUST FILLING A VACANCY; THEY NOW RECOGNIZE THE NEED TO ASSESS THE STRATEGIC VALUE OF THAT POSITION AND THE COMPETENCIES REQUIRED TO PERFORM THAT FUNCTION. AGENCIES NO LONGER SEE HUMAN CAPITAL MANAGEMENT AS A PROCESS; THEY SEE IT AS A STRATEGIC TOOL TO PROPEL MISSION ACCOMPLISHMENT. WHEN WE SAY WE HAVE MADE PROGRESS IN THE HUMAN CAPITAL INITIATIVE, WE ARE NOT SPEAKING OF MERE PROCEDURAL CHANGES; WE'RE TALKING ABOUT CULTURAL CHANGES.

A SIGNIFICANT STEP LEADING TO THIS PROGRESS WAS THE DEVELOPMENT OF THE HUMAN CAPITAL STANDARDS FOR SUCCESS, A JOINT PRODUCT OF GAO, OMB, AND OPM. THESE STANDARDS FOCUS ON THE MAJOR HUMAN CAPITAL CHALLENGES FACING THE GOVERNMENT, SUCH AS ALIGNING HUMAN CAPITAL STRATEGIES WITH MISSION GOALS, ESTABLISHING ACCOUNTABILITY FOR HUMAN CAPITAL MANAGEMENT, AND RECRUITING, RETAINING, AND DEVELOPING EMPLOYEES WHILE MORE EFFECTIVELY MANAGING THEIR PERFORMANCE.

THESE ARE THE STANDARDS WE USE TO SCORE AGENCY EFFORTS EACH QUARTER. THIS SCORING PROCESS HAS CAST A BRIGHT LIGHT ON AGENCY EFFORTS TO TRANSFORM THEIR HUMAN CAPITAL MANAGEMENT SYSTEMS INTO EFFECTIVE TOOLS TO ADDRESS HUMAN CAPITAL NEEDS, RESULTING IN HIGH-LEVEL ATTENTION AND AGGRESSIVE ACTION.

TO MAKE THE SCORING PROCESS TRANSPARENT, OPM PUBLISHED A FRAMEWORK LAST FALL THAT PROVIDES A COMMON LANGUAGE AND PERSPECTIVE SO AGENCIES KNOW EXACTLY WHAT WE'RE LOOKING FOR WHEN WE RATE THEIR EFFORTS. WE WILL USE IT TO ASSESS AGENCIES, AND IT IS ALSO AVAILABLE FOR SELF ASSESSMENT. IN OUR RESTRUCTURING, OPM DEDICATED A HIGHLY-SKILLED STAFF TO WORK DIRECTLY WITH OMB STAFF AND POLICY OFFICIALS AND AGENCY LEADERS TO APPRAISE AND ADVANCE STRATEGIC HUMAN CAPITAL MANAGEMENT. THE SHARED FRAMEWORK HAS MADE OUR DISCUSSIONS WITH AGENCIES MUCH MORE FOCUSED AND PRODUCTIVE.

THE FACT THAT THE HUMAN CAPITAL STATUS OF MOST AGENCIES IS STILL RATED RED IS NEITHER SURPRISING NOR DISCOURAGING. REMEMBER THAT THE PRESIDENT'S FIVE INITIATIVES IN HIS MANAGEMENT AGENDA FOCUSED ON THE GOVERNMENT'S MOST SERIOUS MANAGEMENT PROBLEMS. THEY WERE NOT DEVISED TO MAKE THE GOVERNMENT LOOK GOOD; THEY WERE DEVISED TO MAKE THE GOVERNMENT BETTER. HUMAN CAPITAL MANAGEMENT, BECAUSE IT INVOLVES NO LESS THAN TRANSFORMING THE WAY WE EMPLOY, DEPLOY, AND DEVELOP OUR WORKFORCE, IS ONE OF THE MOST COMPLEX OF THE FIVE INITIATIVES.

AGENCIES HAVE SPENT THIS FIRST YEAR CONCENTRATING ON LINKING THEIR HUMAN CAPITAL PRACTICES TO MISSION RESULTS. WORKFORCE PLANNING STRATEGIES ARE BEING USED TO IDENTIFY AND ANTICIPATE SKILL GAPS AND THE AGENCY LEADERSHIP

IS TAKING OWNERSHIP OF HUMAN CAPITAL. HUMAN RESOURCES STAFF ARE PARTNERS, BUT THE LEADERS OWN THE INITIATIVE. ALIGNING HUMAN CAPITAL STRATEGIES WITH DEPARTMENTAL MISSION GOALS HAS BEEN DIFFICULT, ESPECIALLY FOR LARGE DEPARTMENTS WHERE BUREAUS HAVE TRADITIONALLY ACTED RATHER AUTONOMOUSLY. NOW AGENCIES ARE MOVING FROM PLANNING TO IMPLEMENTING, AND MORE WILL BE PROGRESSING FROM RED TO YELLOW STATUS. WHILE GREEN IS THE ULTIMATE GOAL, ACHIEVING EVEN A YELLOW STATUS INDICATES SIGNIFICANT PROGRESS. IT MEANS AGENCIES ARE ACTING STRATEGICALLY AS THEY RECRUIT, RETAIN, DEVELOP, AND REWARD THEIR WORKFORCE. IT MEANS HUMAN CAPITAL STAFF ARE FULL PARTNERS IN HELPING LINE MANAGERS GET THEIR WORK DONE.

SEVERAL AGENCIES, INCLUDING SOME NOT YET SCORED YELLOW, HAVE MADE NOTEWORTHY GAINS. THE DEPARTMENT OF ENERGY AND THE DEPARTMENT OF LABOR ARE AMONG AGENCIES THAT HAVE SUCCESSFULLY LINKED PERFORMANCE EXPECTATIONS OF MANAGERS TO STRATEGIC PLANS AND MISSION OBJECTIVES. THEIR PERFORMANCE APPRAISAL SYSTEMS ARE DESIGNED TO MAKE MEANINGFUL DISTINCTIONS BY REWARDING HIGH PERFORMANCE AND CORRECTING POOR PERFORMANCE.

OTHER EXAMPLES OF EFFECTIVE PRACTICES IN HUMAN CAPITAL MANAGEMENT INCLUDE THE SOCIAL SECURITY ADMINISTRATION'S INITIATIVE IN REDEPLOYING ITS WORKFORCE TO FRONT-LINE POSITIONS TO IMPROVE CUSTOMER SERVICE. IT HAS ALREADY TRANSFERRED NEARLY 300 STAFF POSITIONS TO THE FRONT LINE AND PLANS TO REASSIGN FIVE PERCENT OF HEADQUARTERS STAFF POSITIONS TO DIRECT SERVICE BY THE END OF NEXT FISCAL YEAR.

THE DEPARTMENT OF LABOR HAS IDENTIFIED COMPETENCIES FOR MOST OF ITS MISSION-

CRITICAL OCCUPATIONS AND IS DEVISING STRATEGIES TO ADDRESS FUTURE COMPETENCY GAPS. THE DEPARTMENTS OF DEFENSE, VETERANS AFFAIRS, AND TRANSPORTATION, AND THE NUCLEAR REGULATORY COMMISSION HAVE ALL IMPLEMENTED STRATEGIC WORKFORCE PLANNING MODELS THAT HELP MANAGERS DETERMINE THEIR NEAR- AND LONG-TERM SKILL NEEDS. THIS WORKFORCE ANALYSIS ALERTS AGENCIES TO WHERE THEY NEED TO CONCENTRATE THEIR RECRUITING AND TRAINING EFFORTS.

THE NATIONAL AERONAUTICS AND SPACE ADMINISTRATION HAS DEVELOPED AN AUTOMATED COMPETENCY MANAGEMENT SYSTEM THAT, WHEN FULLY IMPLEMENTED, WILL ALLOW SUPERVISORS AND POLICY MAKERS TO STUDY THE COMPETENCIES OF INDIVIDUALS, GROUPS, CENTERS, OR THE ENTIRE AGENCY. THIS INFORMATION IS VITAL TO EFFECTIVE WORKFORCE PLANNING, RECRUITING, TRAINING, AND OTHER HUMAN CAPITAL STRATEGIES.

THESE ARE BUT A FEW EXAMPLES OF HOW AGENCIES HAVE PROGRESSED BEYOND ROUTINELY PROCESSING STAFFING AND TRAINING ACTIONS TO STRATEGICALLY ASSESSING HOW THESE ACTIONS WILL HELP THE AGENCY DO ITS WORK.

IN SUMMARY, IT IS CLEAR THAT WE NEED TO PLAN BETTER, LINK PERFORMANCE EVALUATION TO AGENCY MISSION, AND IDENTIFY SKILLS GAPS. WE ARE STATRING TO PROFESSIONALLY IDENTIFY AND FILL GAPS, AND TO DEVELOP PROGRAMS FOR HIRING AND RETAINING THE BEST PEOPLE, BUT WE NEED MORE TOOLS, LIKE THE HUMAN CAPITAL PERFORMANCE FUND PROPOSED IN THE PRESIDENT'S BUDGET FOR THE NEXT FISCAL YEAR.

JUST AS THE GOVERNMENT PERFORMANCE AND RESULTS ACT DIRECTS AGENCIES TO

TRACK ORGANIZATIONAL PERFORMANCE, WE BELIEVE THAT THE GOVERNMENT MUST ADOPT COMPENSATION PRACTICES DESIGNED TO SPUR AND MEASURE INDIVIDUAL EMPLOYEE PERFORMANCE. THERE CAN BE NO TURNING BACK FROM THE SHIFT TO MEASURING RESULTS. INDEED, PERFORMANCE-ORIENTED PAY IS EMBRACED BY MERIT SYSTEM PRINCIPLES WHICH CALL FOR "APPROPRIATE INCENTIVES AND RECOGNITION" FOR "EXCELLENCE IN PERFORMANCE."

AS I MENTIONED EARLIER, TO HELP AGENCIES OFFER MORE SIGNIFICANT REWARDS FOR SUPERIOR PERFORMANCE, AS WELL AS RECRUIT AND RETAIN EMPLOYEES WITH NEEDED SKILLS, THE ADMINISTRATION HAS PROPOSED ALLOCATING $500 MILLION FOR A NEW HUMAN CAPITAL PERFORMANCE FUND. THE FUND WOULD ALLOW AGENCIES TO GIVE EXTRA PAY RAISES BASED ON AN EMPLOYEE'S SUPERIOR PERFORMANCE OR POSSESSION OF SKILLS CRITICAL TO THE AGENCY'S MISSION. THE HUMAN CAPITAL PERFORMANCE FUND PROVIDES AN INCENTIVE FOR AGENCIES TO DIFFERENTIATE BETWEEN LEVELS OF PERFORMANCE.

WE KNOW THAT MORE PROGRESS IS NEEDED IN DEVELOPING ROBUST PERFORMANCE APPRAISAL SYSTEMS, YET THE SYSTEMS DEVELOPED BY THE DEPARTMENTS OF ENERGY AND LABOR SHOW IT CAN BE DONE. WE BELIEVE ADOPTION OF THE PRESIDENT'S PROPOSAL FOR A HUMAN CAPITAL PERFORMANCE FUND WOULD PROVIDE ADDITIONAL MOTIVATION AND REAL INCENTIVES – BACKED BY REAL DOLLARS – FOR AGENCIES TO DEVELOP THESE SYSTEMS.

MORE SIGNS OF PROGRESS CAN BE FOUND IN THE GOVERNMENT-WIDE PROVISIONS OF PUBLIC LAW 107-296, THE HOMELAND SECURITY ACT, WHICH INCLUDES A NUMBER OF HUMAN RESOURCES PROVISIONS PROPOSED BY THE PRESIDENT IN HIS MANAGERIAL FLEXIBILITY ACT. THOSE PROVISIONS, WHICH YOUR COMMITTEES SO STRONGLY

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SUPPORTED, MAKE AVAILABLE TO AGENCIES A NUMBER OF SIGNIFICANT FLEXIBILITIES THAT WE BELIEVE WILL HELP TO STREAMLINE AND MODERNIZE HIRING ACROSS THE GOVERNMENT AS WELL AS HELP AGENCIES TO BETTER MANAGE THEIR WORKFORCES USING CONTEMPORARY TOOLS.

LET ME FIRST ADDRESS THE HIRING FLEXIBILITIES – DIRECT HIRE AND CATEGORY RATING. WE ARE DRAFTING REGULATIONS THAT WILL ALLOW OPM TO DETERMINE ON ITS OWN, OR IN RESPONSE TO AN AGENCY REQUEST, THAT A SEVERE SHORTAGE OF CANDIDATES OR CRITICAL HIRING NEED EXISTS GOVERNMENT-WIDE, OR IN SPECIFIED AGENCIES, FOR ONE OR MORE OCCUPATIONAL SERIES, GRADES OR GEOGRAPHIC LOCATIONS. IN ADDITION, THE REGULATIONS WILL ALLOW US TO DETERMINE THAT A CRITICAL HIRING NEED EXISTS WHEN AN AGENCY HAS A NEED TO FILL A POSITION OR POSITIONS TO MEET MISSION REQUIREMENTS BROUGHT ABOUT BY AN EXIGENCY SUCH AS A NATIONAL EMERGENCY, THREAT OR POTENTIAL THREAT, ENVIRONMENTAL DISASTER, OR OTHER UNANTICIPATED OR UNUSUAL EVENT OR MISSION REQUIREMENT. A CRITICAL HIRING NEED MAY ALSO BE TRIGGERED BY THE NEED TO CONFORM TO REQUIREMENTS OF LAW, PRESIDENTIAL DIRECTIVE OR ADMINISTRATION INITIATIVE, OR A CONGRESSIONAL OR OTHER MANDATE TO MEET NEW OR EXPANDED MISSION REQUIREMENTS BY A PARTICULAR DATE.

WHERE SUCH A SEVERE SHORTAGE OR A CRITICAL HIRING NEED IS ESTABLISHED, AN AGENCY WILL BE ABLE TO HIRE DIRECTLY, WITHOUT REGARD TO PROVISIONS OF LAW GOVERNING PREFERENCE ELIGIBLES OR THE "RULE OF THREE."

CATEGORY RATING IS ANOTHER IMPORTANT FLEXIBILITY MADE AVAILABLE GOVERNMENT-WIDE BY THE HOMELAND SECURITY ACT. THIS ALTERNATIVE METHOD TO NUMERICAL RATING WILL GIVE AGENCIES A BROADER FIELD OF CANDIDATES FROM

WHICH TO SELECT WHILE PROTECTING THE HIRING PREFERENCES THAT ARE SO IMPORTANT TO THE MEN AND WOMEN WHO SERVE OUR COUNTRY AS MEMBERS OF THE MILITARY SERVICES. AS YOU KNOW, CATEGORY RATING HAS BEEN USED SUCCESSFULLY AT SEVERAL AGENCIES UNDER DEMONSTRATION AUTHORITY, AND WE LOOK FORWARD TO IMPLEMENTING IT MORE BROADLY UNDER THE NEW PERMANENT GOVERNMENT-WDIE AUTHORITY.

THE WORKFORCE SHAPING TOOLS OF THE HOMELAND SECURITY ACT INCLUDE CHANGES TO VOLUNTARY EARLY RETIREMENT AUTHORITY (VERA) AND PROVIDE GOVERNMENT-WIDE BUYOUT AUTHORITY DESIGNED TO HELP AGENCIES RESHAPE THEIR WORKFORCES. WE PUBLISHED INTERIM FINAL REGULATIONS IMPLEMENTING BUYOUTS ON FEBRUARY 4. DIRECTOR JAMES, IN CONSULTATION WITH OMB, HAS ALREADY APPROVED BUYOUT AUTHORITY FOR THREE AGENCIES. WE ARE CURRENTLY DRAFTING THE VERA IMPLEMENTING REGULATIONS.

TO FACILITATE RECOGNITION OF HIGH-PERFORMING EMPLOYEES, THE ACT PROVIDED ACCESS TO A HIGHER AGGREGATE COMPENSATION LIMITATION FOR MEMBERS OF THE SENIOR EXECUTIVE SERVICE AS WELL AS SENIOR-LEVEL AND SCIENTIFIC OR PROFESSIONAL EMPLOYEES. OPM IS DEVELOPING REGULATIONS THAT WILL PERMIT AGENCIES ACCESS TO THE HIGHER LIMIT PROVIDED THAT WE CAN CERTIFY THAT THE APPRAISAL SYSTEMS COVERING SUCH EMPLOYEES MAKE MEANINGFUL DISTINCTIONS IN PERFORMANCE AND TAKE INTO ACCOUNT ORGANIZATIONAL AS WELL AS INDIVIDUAL PERFORMANCE. CONSISTENT WITH THE LAW, WE WILL DEVELOP THE REGULATIONS IN CONSULTATION WITH THE OFFICE OF MANAGEMENT AND BUDGET.

PERHAPS THE MOST SIGNIFICANT PROVISION OF THE HOMELAND SECURITY ACT FROM A HUMAN CAPITAL PERSPECTIVE IS THE PROVISION THAT ALLOWS THE DEPARTMENT

SECRETARY AND THE OPM DIRECTOR TO DESIGN A NEW PAY AND PERSONNEL SYSTEM TO BRING TOGETHER THE EMPLOYEES OF THE 22 AGENCIES THAT NOW MAKE UP THE DEPARTMENT OF HOMELAND SECURITY. THE DESIGN TEAM FOR THAT EFFORT BEGAN MEETING LAST WEEK. TEAM MEMBERS ARE EMPLOYEES REPRESENTING A CROSS-SECTION OF HOMELAND SECURITY INCLUDING PROGRAM MANAGERS, AGENCY PERSONNEL EXPERTS AND REPRESENTATIVES FROM THE AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, THE NATIONAL TREASURY EMPLOYEES UNION AND THE NATIONAL ASSOCIATION OF AGRICULTURE EMPLOYEES. DURING MAY AND JUNE, THE TEAM WILL REACH OUT TO EMPLOYEES OF THE NEW DEPARTMENT THROUGH FIELD MEETINGS. BY SEPTEMBER, WE EXPECT THE DESIGN TEAM TO DELIVER ITS OPTIONS TO A SENIOR REVIEW COMMITTEE THAT WILL DEVELOP RECOMMENDATIONS FOR SECRETARY RIDGE AND DIRECTOR JAMES. AGAIN, WE ARE MOST APPRECIATIVE OF YOUR SUPPORT FOR FEDERAL EMPLOYEES, FOR THE IMPORTANT GOVERNMENT-WIDE FLEXIBILITIES PROVIDED BY THE HOMELAND SECURITY ACT AND FOR THE OPPORTUNITY TO DESIGN A WORLD CLASS PERSONNEL SYSTEM.

IN YOUR LETTER OF INVITATION, YOU ASKED THAT WE ADDRESS SPECIFIC LEGISLATIVE PROPOSALS. FIRST, OPM SUPPORTS MANY OF THE PROVISIONS THE "FEDERAL WORKFORCE FLEXIBILITY ACT OF 2003 (S. 129 / H.R. 1601)." THIS PROPOSAL BUILDS ON THE GOVERNMENT-WIDE HIRING AND PAY FLEXIBILITIES PROVIDED BY THE "HOMELAND SECURITY ACT OF 2002" AND CAN HELP MAKE THE FEDERAL GOVERNMENT A BETTER AND MORE ATTRACTIVE EMPLOYER. THIS BILL INCORPORATES MANY OF THE RECRUITMENT AND RETENTION FLEXIBILITIES PROPOSED IN THE PRESIDENT'S "MANAGERIAL FLEXIBILITY ACT." THE ADMINISTRATION IS CURRENTLY DEVELOPING A POSITION ON EACH OF THE ADDITIONAL PROVISIONS THAT HAVE BEEN INCLUDED IN THIS BILL.

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REGARDING THE PROPOSED "SENIOR EXECUTIVE SERVICE REFORM ACT OF 2003," WE ARE PLEASED TO SEE THAT THIS BILL INCORPORATES THE BASIC FEATURES OF THE SES PAY REFORM PROPOSAL INCLUDED IN THE PRESIDENT'S BUDGET FOR FY 2004. THE ADMINISTRATION'S PROPOSAL IS INTENDED TO RELIEVE SERIOUS "PAY COMPRESSION" PROBLEMS WHILE AT THE SAME TIME CREATING AN OPEN RANGE PAY SYSTEM FOR SENIOR EXECUTIVES THAT WILL ENABLE EACH EXECUTIVE'S PAY TO BE SET ON THE BASIS OF MEANINGFUL DISTINCTIONS IN PERFORMANCE. WE WOULD LIKE TO SUGGEST A FEW TECHNICAL CHANGES IN THIS PROPOSAL THAT WOULD PERMIT THESE OBJECTIVES TO BE REALIZED MORE FULLY. WE LOOK FORWARD TO WORKING WITH YOU TO ADDRESS THIS IMPORTANT ISSUE.

THE PROPOSED "GENERATING OPPORTUNITY BY FORGIVING EDUCATIONAL DEBT FOR SERVICE (GOFEDS) ACT OF 2003 (S. 512 / H.R. 1056)," WOULD ALLOW THE FEDERAL GOVERNMENT TO OFFER TAX-FREE STUDENT LOAN REPAYMENT BENEFITS TO NEW RECRUITS OR CURRENT EMPLOYEES.

JUST AS WE EXPECT AGENCIES TO THINK STRATEGICALLY IN MANAGING THEIR HUMAN CAPITAL, WE AT OPM KEEP THE BIG PICTURE IN MIND AS WE DEVELOP TOOLS AND GUIDANCE TO HELP AGENCIES MAKE THE MOST OF THEIR HUMAN CAPITAL. THE MERIT SYSTEM PRINCIPLES PROVIDE THE FOUNDATION FOR ALL OF OUR DEALINGS WITH AGENCIES. I WANT TO UNDERSCORE THE IMPORTANCE OF MAINTAINING THESE PRINCIPLES AS FOUNDATION OF ALL HUMAN CAPITAL PRACTICES. THESE PRINCIPLES HAVE SERVED OUR NATION WELL DURING TIMES OF WAR AND PEACE AND WE CONTINUE TO TURN TO THE MERIT PRINCIPLES TO ENSURE THAT WE MAINTAIN A FAIR SYSTEM THAT WILL ATTRACT AND MOTIVATE THE BEST AND THE BRIGHTEST OF THE RISING GENERATION TO HEED THE CALL TO PUBLIC SERVICE. OPM WORKS WITH THE AGENCIES TO ENSURE CONSISTENCY AND FLEXIBILITY IN OUR HUMAN CAPITAL PRACTICES.

COMPLEMENTING OUR EFFORTS TO OPERATE WITHIN A MERIT-BASED ENVIRONMENT, WE ALSO ARE WORKING TO BALANCE OUR RECOGNITION THAT AGENCIES NEED TAILORED AND FLEXIBLE PERSONNEL SYSTEMS AGAINST THE INTERESTS OF THE FEDERAL GOVERNMENT ACTING AS A UNIFIED EMPLOYER. CONSISTENCY SUPPORTS THE BASIC VALUES AND PRINCIPLES THAT MAKE THE GOVERNMENT AN EMPLOYER OF CHOICE. FLEXIBILITY ANSWERS THE NEED FOR UNIQUE SOLUTIONS TO INDIVIDUAL AGENCY PROBLEMS. BY ADDRESSING SPECIAL NEEDS WITHIN GOVERNMENT-WIDE SYSTEMS, WE CAN MAINTAIN THE CLARITY AND UNITY THAT THE GOVERNMENT NEEDS AS AN EMPLOYER, WHILE ENCOURAGING EXPERIMENTATION WITH INNOVATIVE SOLUTIONS. INNOVATIONS THAT PROVE EFFECTIVE CAN THEN BE MADE AVAILABLE GOVERNMENT-WIDE.

FINALLY, WE EMPHASIZE ACCOUNTABILITY. AGENCIES MUST TAKE FULL RESPONSIBILITY FOR THE EFFECTIVENESS AND PROPRIETY OF THEIR HUMAN CAPITAL OPERATIONS. OPM SUPPORTS THEM BY DESIGNING TOOLS SUCH AS THE HUMAN CAPITAL ASSESSMENT AND ACCOUNTABILITY FRAMEWORK AND DEVELOPING BETTER METRICS. IN SO DOING, WE ARE PLACING AGENCIES IN A BETTER POSITION TO MAKE HUMAN CAPITAL DECISIONS THAT ARE GUIDED BY A DATA-DRIVEN, RESULTS-ORIENTED ACCOUNTABILITY SYSTEM.

IN CLOSING, LET ME EXPRESS OUR APPRECIATION FOR YOUR LEADERSHIP IN ADDRESSING THESE IMPORTANT ISSUES AT THIS CRUCIAL JUNCTURE FOR GOVERNMENT AND THE WORKFORCE. I WOULD BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE.

INFORMATION TO BE PROVIDED FOR THE RECORD AS A RESULT OF COMMITMENTS MADE BY THE HONORABLE DAN G. BLAIR DURING THE APRIL 8, 2003 JOINT HEARING

The Human Capital Standards that have been set by OPM and the letters sent to agencies in that respect, in addition to an overview of the performance of agencies to date with respect to the scorecard referenced by Deputy Director Dan Blair.

Response: The Human Capital Standards for Success, developed jointly by OPM, OMB, and GAO, are below. These standards were published on OPM's web site, www.opm.gov last November. The most recent final Executive Branch Management Scorecard (dated December 31, 2002), is also provided on the following page.

SCORECARD STANDARDS FOR SUCCESS

Strategic Management of Human Capital

Must Meet All Core Criteria:	Achievement of Some but not All Core Criteria; No Red Conditions	Has Any One of the Following Conditions:
• Agency human capital strategy is aligned with mission, goals, and organizational objectives and integrated into its strategic plans, performance plans, and budgets. • Agency is citizen-centered, delayered and mission-focused, and leverages e-Government and competitive sourcing. • Agency leaders and managers effectively manage people, ensure continuity of leadership, and sustain a learning environment that drives continuous improvement in performance. • Agency has a diverse, results-oriented, high performance workforce, and has a performance management system that effectively differentiates between high and low performance, and links individual/team/unit performance to organizational goals and desired results. • Agency has closed most mission-critical skills, knowledge, and competency gaps/deficiencies, and has made meaningful progress toward closing all. • Agency human capital decisions are guided by a data-driven results-oriented planning and accountability system.		• Agency lacks a human capital strategy that demonstrates how human capital activities and investments support accomplishment of mission, goals, and organizational objectives. • Agency has too many management layers and does not leverage e-Government and competitive sourcing as key components of its human capital planning efforts. • Agency has not developed succession plans in mission-critical areas. • Underrepresentation is not being addressed and the agency's performance management system does not effectively differentiate between high and low performance nor link individual/team/unit performance to organizational goals and desired results. • Agency is not addressing gaps / deficiencies in mission-critical skills, knowledge, and competencies. • Agency does not have adequate performance and workforce data to make and evaluate human capital decisions.

Executive Branch Management Scorecard

	Current Status as of December 31, 2002					Progress in Implementing President's Management Agenda				
	Human Capital	Competitive Sourcing	Financial Perf.	E-Gov	Budget/Perf. Integration	Human Capital	Competitive Sourcing	Financial Perf.	E-Gov	Budget/Perf. Integration
AGRICULTURE	●	●	●	○	●	●	●	●	●	○
COMMERCE	●	●	●	○	○↑	●	●	●	○	●
DEFENSE	○↑	●	●	●	○↑	●	○	●	●	●
EDUCATION	●	●	●	○↑	●	●	●	●	●	●
ENERGY	○↑	●	○↑	○↑	●	●	●	●	●	○
EPA	●	●	○↑	○	○	●	●	●	●	●
HHS	●	●	●	●	●	●	●	○	○	●
HOMELAND	●	●	●	●	●					
HUD	●	●	●	●	●	○	○	●	●	●
INTERIOR	●	●	●	●	●	●	●	●	●	●
JUSTICE	●	●	●	●	●	●	●	●	●	●
LABOR	○	●	○↑	○	○↑	●	○	●	●	●
STATE	●	●	●	●	●	●	○	●	○	●
DOT	●	●	●	●	○	●	●	●	●	●
TREASURY	●	●	●	●	●	●	●	●	○	●
VA	●	●	●	○↑	○↑	●	●	●	●	●
AID	●	●	●	●	●	●	●	○	○	●
CORPS of ENGINEERS	●	●	●	●	●	●	●	●	○	○
GSA	●	●	○	●	●	●	●	●	○	○
NASA	○↑	●	●↓	●	○↑	●	●	●	●	●
NSF	●	●	●	●↑	●	●	●	●	●	○
OMB	●	●	●	●	●	○	●	○	●	○
OPM	○	●	○↑	○	●	●	●	●	●	●
SBA	●	●	●↓	○	○	●	●	●	●	○
SMITHSONIAN	●	●	●	○	●	○	○	○	●	○
SSA	○	●	○	○	○↑	●	○	●	●	●

↑↓ arrows indicate change in status since baseline evaluation on September 30, 2001

Information about the extent of any pay gap with respect to female Federal employees, along with possible reasons for any such gap.

RESPONSE: The General Schedule (GS) is designed to be gender neutral. The grade level of a position is based on the duties of the position, not the gender of the incumbent. On a grade-by-grade basis, the earnings of women are within about 2.7 percent of the earnings of men. At some GS grade levels, the average salary for women is slightly higher than that for men.

OPM's view on what it would regard as "certification" with respect to GAO's recommendation (reemphasized in Comptroller General Walker's testimony) that pay for performance systems be certified by OPM before implementation.

RESPONSE: OPM plans to require agencies to submit documentation of the design of their pay-for-performance systems. That documentation would have to meet criteria set by OPM for effectively designed pay-for-performance systems. Those criteria could include requirements such as having performance management programs that make meaningful distinctions in performance, alignment of performance management programs with organizational goals and organizational performance, and mechanisms for pay increases tied directly to performance.

Information on what exactly the Department of Energy and Department of Labor had done that could serve as a model for a pay for performance system.

RESPONSE: Both Departments have a strong focus on results-oriented performance management. They align executives' performance plans with organizational goals, and their performance elements have strong links to the President's Management Agenda. Appropriately, these systems have "started at the top" with initial implementation of new systems for executives and managers. The Departments plan to cascade these systems down into the general workforce.

Specifically, the Department of Energy has added a level to their performance rating system for Senior Executive Service (SES) members. Previously, the highest rating available was "Meets Expectations." Now SES members have a higher rating "Exceeds Expectations" to which they can aspire. SES performance expectations focus on both expected programmatic results and leadership competencies. Expected results are tied to the agency's organizational goals in terms of expected outcomes, timeframes, products, and services. The competencies focus on how well the senior executive carries out his or her responsibilities relative to ten highly desirable leadership attributes. Energy also incorporated into performance expectations evaluation of senior executives' attention to the five initiatives of the President's Management Agenda. Upon its initiation of the new appraisal system, the Department made it clear to executives that the highest performance rating levels would be much fewer than in the past and would represent only the most significant accomplishments. The Department believes these changes will greatly enhance its ability to make meaningful distinctions in performance. These initiatives began with the SES, but in fiscal year 2003 were implemented for supervisors and managers as well. The changes will be cascaded to the rest of the workforce within the next 1-2 years.

The Department of Labor uses five summary performance levels to make distinctions in performance. It focuses executives' critical performance expectations on organizational goals tied to Secretarial program priorities and Government Performance and Results Act goals. The Secretary's program priorities are closely aligned with the President's Management Agenda. Expectations also include emphasis on consistent use of strong management and leadership skills. Narrative evaluations of executives focus heavily on results achieved. For effective performance management at any level, agencies must focus on creating well thought out employee performance expectations. To facilitate that within the Department of Labor, the agency's Human Resources Center published the "Manager's Guide to Writing Performance Standards" for use by senior executives, managers, and supervisors. The Guide provides a general orientation to performance management, stresses the importance of feedback and ongoing communication, and helps users through the process of identifying job elements and creating performance standards.

STATEMENT BY

BOBBY L. HARNAGE, SR.
NATIONAL PRESIDENT
AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL-CIO

BEFORE

THE SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL WORKFORCE AND THE DISTRICT OF COLUMBIA
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

AND

THE SUBCOMMITTEE ON CIVIL SERVICE AND AGENCY ORGANIZATION
HOUSE COMMITTEE ON GOVERNMENT REFORM

ON

APRIL 8, 2003

American Federation of Government Employees, AFL-CIO
80 F Street, NW, Washington, D.C. 20001 ★ (202) 737-8700 ★ www.afge.org

Madam Chairwoman, Mr. Chairman and Members of the Subcommittees: My name is Bobby L. Harnage, and I am the National President of the American Federation of Government Employees, AFL-CIO (AFGE). On behalf of the more than 600,000 federal employees across the nation and around the world represented by AFGE, I thank you for the opportunity to testify today on proposed legislation to address what some call the federal government's human capital crisis.

In your invitation to testify, you asked for our union's view of the "current workplace environment" as it may affect federal employees' position regarding any proposals to alter the laws governing federal employment. I welcome the recognition of the importance of federal employees' attitudes, since the unfortunate fact is that they are under siege by this administration, and they know it.

Indeed, the overall predicament federal employees find themselves in at this historical moment is a crucial factor in addressing the provisions in the proposed legislation.

The Bush Administration is pursuing aggressively a policy of mandatory privatization quotas aimed at a minimum of 850,000 federal employee jobs. The Administration has not only ignored, but relentlessly disparaged the principle underlying the law that is supposed to govern federal pay, while at the same time

thrice defying the longstanding tradition of civilian-military pay parity. For Fiscal Year 2004, the administration wants to divert a quarter of the meager allowance it concedes for federal pay adjustments to a managerial "slush" fund to be used at the discretion of political appointees and the supervisors who report to them to reward some federal employees and not others. At the same time, the administration quietly reintroduced the discredited practice of paying large bonuses to already well-paid, and well-positioned political appointees out of general salary accounts.

The Administration has stripped federal workers who have been protected by collective bargaining rights for more than two decades of these rights, on the indefensible grounds that their union representation constituted a threat to national security. In addition, the Administration insisted on depriving the 170,000 federal employees reallocated to the Department of Homeland Security (DHS) of several longstanding rights and protections under title 5, including the rights established in the chapters covering pay, classification, performance appraisal, appellate rights with respect to adverse actions, and the right to union representation through collective bargaining. Finally, the Administration has repeatedly questioned the patriotism and loyalty of federal employees who are union members, despite their demonstrated love of country, commitment to public service, and history of heroism both day to day and in moments of national emergency, before, on, and since September 11.

Privatization, union busting, pay stagnation, repeal of civil service protections, and questioning of patriotism – these are facts that define the present milieu for federal employees. Unfortunately, into this milieu have been introduced S. 129 and H.R. 1601, bills that purport not only to expand managers' authorities further, but also, optimistically, to make federal employment more attractive to prospective job candidates.

The provisions of S.129 and H.R.1601 are not highly objectionable in themselves, unless one measures them against their stated goal of helping to address the government's self-inflicted "human capital crisis," or considers them in the context of the far more pressing needs of federal employees and agencies. Should the government put its resources into paying some new employees three years worth of salary over their first two years? Should the government put its resources into paying bonuses worth 50% of base salary to those who threaten to leave either for another federal job or a job outside government if they don't get what they want? Are either of these strategies preferable to paying all federal employees competitive base salaries throughout their careers, rather than just for the first two years or in years when they can manage to mount a credible threat to leave their agency in the lurch? These are the first questions that arise in contemplation of the legislation's provisions.

S. 129 and H.R. 1601 force one to ask those three questions because the expanded bonus authority they contain does not come with any additional funding. Exercise of those authorities would therefore necessarily come at the expense either of hiring adequate numbers of employees to handle an agency's workload, or denying salary adjustments to other employees (or groups of employees) who are either not new or are not willing to extort a big bonus via threatening to leave.

One must question the wisdom of diverting money from a finite salary account to large bonuses for new employees who may stay only for the length of their two or four year service periods, especially in light of the fact that the "human capital crisis" is occasioned by the government's need to replace its retiring *career* workforce. Does the agency come any closer to resolving any portion of the problem presented by the retirement eligibility of half the federal workforce if payment of a jumbo recruitment bonus means abolishing a position in order to attract someone who only plans to stay for two years? Common sense suggests that this will only worsen the human capital crisis, not alleviate it. What can agencies expect newly recruited employees to do after eligibility for 50% bonuses expires?

Will such employees, whom we can presume, would not have accepted the federal position absent the 50% bonus (otherwise why pay it?), stay when their annual incomes decline by one third? One expects that they will not. Any

investment in training and any hoped for succession from the earlier generation will have been lost. All the agency will be able to do is go through the whole process again, a constant churning through inexperienced new recruits.

Meanwhile, what are career federal employees who have dedicated themselves and their careers to federal service supposed to think? Are they to infer that the federal government only values employees in their first two years or employees who repeatedly threaten to leave? Where is the recognition that they have been deprived of the promise of federal salaries that are 90% of comparable private sector salaries? The Federal Employees Pay Comparability Act (FEPCA), passed in 1990 with bipartisan support and signed into law by the first President Bush, promised not only pay comparability, but a comparability that would recognize difference in local metropolitan labor markets.

FEPCA introduced a long list of pay flexibilities that managers were authorized to use not only for recruitment and retention, but also for performance management. What follows is not an exhaustive list of FEPCA's flexibilities, yet it does give some perspective to the claim that introduction of "flexibilities" into what has (wrongly) been described as an inflexible and antiquated system for compensating federal employees will be the answer to the human capital crisis. FEPCA introduced:

- locality pay adjustments
- special pay rates for certain occupations

- critical pay authority
- recruitment and retention flexibilities that allow hiring above the minimum step of any grade
- paying recruitment or relocation bonuses
- paying retention bonuses of up to 25% of basic pay
- paying travel and transportation expenses for new job candidates and new hires
- allowing new hires up to two weeks advance pay as a recruitment incentive
- allowing time off incentive awards
- paying cash awards for performance
- paying supervisory differentials to GS supervisors whose salaries were less than certain subordinates covered by non-GS pay systems
- waiver of dual compensation restrictions
- changes to Law Enforcement pay
- special occupational pay systems
- pay flexibilities available to Title 5 health care positions, and more.

S.129 and H.R.1601 merely increase the size of the bonuses managers are authorized to offer and streamline critical pay authorities. One must conclude from this that its sponsors believe that the size of the bonuses authorized by FEPCA is all that stands between current law and a resolution of the human capital crisis. Yet how do we know that the size of bonuses managers are authorized to pay has been an obstacle to the successful recruitment and

retention of federal employees? The Office of Personnel Management (OPM) surveyed agencies in 1999, almost a decade after this broad range of flexibilities had been authorized. The OPM report found that less than 1% of eligible federal employees had ever benefited from the exercise of these authorities. The reason the flexibilities had been so rarely used, cited again and again by respondents, was that there was no separate funding for them.

We believe that the approach to financial incentives for recruitment and retention contained in this legislation is at best incomplete, at worst, misplaced. Federal salaries are too low not just for prospective employees, or for employees the agencies expect to employ only for a short period. Salaries are too low for all employees. There are market-driven reasons why the federal government should pay competitive salaries, and there are values-driven reasons why the federal government should pay competitive salaries. While market-driven reasons such as recruitment and retention may on the surface only appear to apply to prospective employees and "flight risks," they in fact apply to all employees.

In addition, the federal government should pay competitive salaries and wages to both its blue- and white-collar workforces because it is the right thing to do. The U.S. government and WalMart are today our nation's two largest employers. WalMart indisputably represents the low road in compensation and working conditions. Its strategy of minimal wages, erratic just-less-than full time

schedules designed to evade Fair Labor Standards Act (FSLA) requirements and health insurance subsidy eligibility, aggressive union avoidance, unchecked managerial flexibility and its attendant lawsuits charging racial, gender, and ethnic discrimination, constant turnover, and low morale is one the federal government should not even try to emulate. Indeed, the federal government should be a model employer, exemplifying the high road, a positive standard for fair treatment and fair compensation.

AFGE does support the use of bonuses and other financial incentives to reward federal employees. Yet they should never be used as substitutes for a fully funded regular pay system. The "human capital" crisis these bonuses are ostensibly meant to alleviate is in part a result of the repeated failure to implement and fund FEPCA.

We must ask why the proposals contained in S.129 and H.R. 1601 do not provide a separate, supplemental funding mechanism for either the payment of bonuses, or the expansion of critical pay authority? It seems foolish to pretend that, if enacted, these provisions would improve the government's ability to recruit and/or retain federal employees. Bonus payments do not count as basic pay for purposes of retirement or other salary adjustments. They are a poor substitute for the provision of competitive salaries and regular salary increases that allow employees to maintain decent living standards.

Before implementing a bonuses-for-some (and super-sized salaries for a lucky few) instead of an adequate-salaries-for-all approach, we ask you to consider the following: Should employees who are loyal and have made a decision to dedicate their careers to public service be penalized financially relative to those whose only loyalty is to their individual paycheck? Should the federal pay system reward only those willing to extort a bonus from an agency by continually threatening to leave in the middle of an important project? Or should the federal government pay adequate, competitive salaries to *all* its employees?

The legislative proposals make the following scenario possible: a recent graduate is hired "directly" for a position at a university job fair, effectively beating out three other candidates who had applied for the position through normal competitive procedures (among the three were a veteran with relevant experience and the same degree from the same university, a disabled veteran with 10 years of federal employment and a similar degree, and a recent graduate from another university with the same type of degree but a higher GPA who mistakenly thought the best route to federal employment was to follow procedures and fill out a Standard Application Form 171). To encourage the direct hire person to accept the position, he is promised bonuses worth 50% of salary each year for two years (indeed, he must also accept a service agreement wherein he agrees to work for the agency for a period of two years). During that two-year period, the agency would repay the employee's student loans. At the end of the service agreement, the employee threatens to leave in the middle of a

project. The agency wants to keep him, so a retention bonus of 25% of salary, for two years, is authorized because a "critical need" is identified. At the end of this period, the privatization quotas catch him in their evil vise, and his job is directly converted to contract. Over four years, this employee has received about five and a half years of salary, plus student loan repayment. And the expertise and experience he has built up over that period is lost to the agency. But the authorities and the privatization quotas remain, so the agency can go through this song and dance all over again.

It's a windfall for the hypothetical employee, quite an expensive experiment for taxpayers, and quite an insult to the thousands of rank and file federal employees who are taken for granted and denied competitive salaries, benefits, or any form of job security. The question is: Is it a reasonable response to the "human capital" crisis? Will it allow the government to replace the more than 50% of federal employees who will be eligible to retire within the next 5 years with a new generation of employees who exhibit the same level of skill, dedication, and reliability as our nation has relied upon in the past? What chance is there that employees in the existing workforce who have as good or better skills than those hired under the authorities being contemplated will share in the kind of "critical need" bounty to be lavished on new workers who are either discarded within a short period of time, or expected to leave?

We urge those looking for a way to address the human capital crisis to stop looking for short-term fixes. The government's need for a high quality workforce and comprehensive in- house capacity are neither temporary nor short-term, and the government as well as the employees deserve to have the security and continuity that a workforce with full civil service protections and full funded, competitive salaries convey. Taxpayers' interests are best served by knowing that career federal employees, sworn to uphold the public good and work in the public interest for the long term, perform government work.

Human capital crises are not like the weather; they do not just happen. The retirement wave is not a problem because America's workforce is smaller today than it was 30 years ago. This crisis is entirely of the government's own making, and can be reversed by implementing the proper policies.

The place to start with respect to solution is to identify what caused the human capital crisis, and implement policies that would reverse and repair the actions that led us to this point. The retirement wave that constitutes the material end of this crisis was foreseen more than a decade ago and was what gave rise not only to the establishment of the Federal Employees Retirement System (FERS) in 1983, but it is also a big part of what motivated the enactment of FEPCA in 1990.

FEPCA presented a moderate and gradual approach to what was then the single biggest problem facing federal employees and those who hoped to recruit and

retain them: inferior salaries that lagged behind those in the private sector by an average of about 30%. FEPCA's promise of closing the pay gaps by locality over a ten-year period was never realized because two successive administrations have failed to fund the system. The Clinton Administration cited undisclosed "methodological" problems after the economic emergency loophole became ludicrous in the face of large budget surpluses and the longest economic expansion on record. The Bush Administration has simply refused to comply, insisting that they are only interested in federal pay adjustments awarded on an individual by individual basis at managers' discretion.

As federal employees endured year after year of broken promises regarding comparability, some 400,000 federal jobs were eliminated as part of a politically inspired downsizing campaign that was implemented without regard to agency missions or long-term cost to taxpayers. We will never know what portion of the workload these 400,000 federal employees performed was contracted out. Some portion of the work was simply taken on by the survivors whose salaries continued to languish in the shadow of FEPCA's unrealized promise.

And then came the present Administration's privatization quotas. These mandatory quotas, which require every Executive Branch agency to directly privatize or review for privatization 850,000 federal jobs has been as destructive of the federal workforce and the reputation of the federal government as an employer as the repeated failure to fund or implement FEPCA. Compliance with

President Bush's privatization quotas, along with the implementation of the Office of Management and Budget's (OMB) controversial rewrite of Circular A-76 (which sets forth the rules for deciding whether and how to privatize government work) have combined to worsen dramatically the prospects of solving the government's human capital crisis.

It is well-known that the Department of Defense (DoD) has been actively promoting legislation to authorize it to waive numerous chapters of title 5 and perhaps title 10, in order to gain authority to implement a comprehensive new personnel system of its own, unilateral design. They are eager to gain these authorities before the success or failure of the grandiose experiment in the Department of Homeland Security (DHS) is known. AFGE considers DoD's attempt highly dangerous and ill advised. There is no question that the more than 200,000 federal employees AFGE represents within DoD will recognize the agency's actions and intentions as hostile to their interests. They know and understand that the "pay for performance" schemes that DoD repeatedly threatens will involve substantial financial sacrifice for them and their families.

The civilian employees of DoD that AFGE represents have spent the last several months preparing and loading our nation's military troops into tanks, airplanes, and war ships. They have engaged, and continue to be engaged as we speak, in the full range of support activities that allow our combat forces to be successful in their mission. It is unconscionable to tell this workforce, either during or right

after having made this enormous contribution to the successful outcome of the current armed conflict that this Congress has agreed to authorize DoD to impose upon them a pay plan and personnel system that is based on the assumption that they are lazy, unreliable, unpatriotic, and unmotivated shirkers.

As proponents of pay for performance put forth their propaganda, it is worth recalling that the General Schedule system they seek to eliminate and replace has considerable pay for performance components. The basic structure of the General Schedule is a 15-grade matrix with ten steps per grade. Movement within a grade or between grades depends upon the satisfactory performance of job duties and assignments over time. That is, an employee becomes eligible for what is known as a "step" increase each year for the first three years, and then every three years thereafter up to the tenth step. *Whether or not an employee is granted a step increase depends upon performance (specifically, they must be found to have achieved "an acceptable level of competence").* If performance is found to be especially good, managers have the authority to award "quality step increases" as an additional incentive. If performance is found to be below expectations, the step increase can be withheld.

The federal position classification system, which is separate and apart from the General Schedule and would have to either continue or be altered separately and in addition to any alteration in the General Schedule, determines the starting salary and salary potential of any federal job. As such, a job classification

determines not only initial placement of an individual and his or her job within the General Schedule matrix, classification determines the standards against which individual worker's performance will be measured when opportunities for movement between steps or grades arise. **And most important, the classification system is based upon the concept of "equal pay for substantially equal work", which goes a long way toward preventing federal pay discrimination on the basis of race, ethnicity, or gender.**

The rationales offered by proponents of pay for performance in the federal government have generally fallen under one of four headings: improving productivity, improving recruitment prospects, improving retention, and punishing poor performers. Perhaps the most misleading rationale offered by advocates of pay for performance is that its use has been widespread in the private sector. Those who attempt to provide a more substantive argument say they support pay for performance because it provides both positive and negative incentives that will determine the amount of effort federal workers put forward. Advocates of pay for performance wisely demur on the question of whether pay for performance by itself is a strategy that solves the problem of the relative inferiority of federal salaries compared to large public and private sector employers. That is to say, when pay for performance is referred to as complying with the government's longstanding principle of private sector comparability, what they seem to mean is comparability in *system design*, and not comparability in salary levels.

Does a pay system that sets out to reward individual employees for contributions to productivity improvement and punishes individual employees for making either relatively small or negative contributions to productivity improvement work? The data suggest that they do not, although the measurement of productivity for service-producing jobs is notoriously difficult. Measuring productivity of government services that are not commodities bought and sold on the market is even more difficult. Nevertheless, there are data that attempt to gauge the success of pay for performance in producing productivity improvement.

Although individualized merit pay gained prominence in the private sector over the course of the 1990's, there is good reason to discount the relevance of this experience for the federal government as an employer. Merit based contingent pay for private sector employees over the decade just past was largely in the form of stock options and profit-sharing, according to BLS data. The corporations that adopted these pay practices may have done so in hope of creating a sense among their employees that their own self interest was identical to the corporation's, at least with regard to movements in the firm's stock price and bottom line. However, we have learned more recently, sometimes painfully, that the contingent, merit-based individual pay that spread through the private sector was also motivated by a desire on the part of the companies to engage in obfuscatory cost accounting practices.

These forms of "pay for performance" that proliferated in the private sector seem now to have been mostly about hiding expenses from the Securities and Exchange Commission (SEC), and exploiting the stock market bubble to lower actual labor costs. When corporations found a way to offer "performance" pay that effectively cost them nothing, it is not surprising that the practice became so popular. However, this popularity should not be used as a reason to impose an individualized "performance" pay system with genuine costs on the federal government.

Jeffrey Pfeffer, a professor in Stanford University's School of Business, has written extensively about the misguided use of individualized pay for performance schemes in the public and private sectors. He cautions against falling prey to "six dangerous myths about pay" that are widely believed by managers and business owners. Professor Pfeffer's research shows that belief in the six myths is what leads managers to impose individualized pay for performance systems that never achieve their desired results, yet "eat up enormous managerial resources and make everyone unhappy."

The six myths identified by Professor Pfeffer are:

(1) labor rates are the same as labor costs;

(2) you can lower your labor costs by lowering your labor rates;

(3) labor costs are a significant factor in total costs;

(4) low labor costs are an important factor in gaining a competitive edge;

(5) individual incentive pay improves performance; and finally,

(6) the belief that people work primarily for money, and other motivating factors are relatively insignificant.

The relevance of these myths in the context of the sudden, urgent desire to impose a pay for performance system on the federal government is telling. Professor Pfeffer's discussion of the first two myths makes one wish that his wisdom would have been considered before the creation of the federal "human capital crisis" through mindless downsizing and mandatory, across-the-board privatization quotas. Pfeffer's distinction argues that cutting salaries or hourly wages is counterproductive since doing so undermines quality, productivity, morale, and often raises the number of workers needed to do the job. Did the federal government save on labor costs when it "downsized" and eliminated 300,000 federal jobs at the same time that the federal workload increased? Does the federal government save on labor costs when it privatizes federal jobs to contractors that pay front-line service providers less and managers and professionals much, much, much more?

Salaries for the 1.8 million federal employees cost the government about $67 billion per year, and no one knows what the taxpayer-financed payroll is for the 5 million or so employees working for federal contractors. But as a portion of the total annual expenditures, it is less than 3%, according to Congressional Budget Office (CBO) projections. Regarding the relevance of low labor costs as a competitive strategy, for the federal government it is largely the ability to compete in labor markets to recruit and retain employees with the requisite skills and commitment to carry out the missions of federal agencies and programs. Time and again, federal employees report that competitive salaries, pensions and health benefits; job security, and a chance to make a difference are what draw them to federal jobs. They are not drawn to the chance to become rich in response to financial incentives that require them to compete constantly against their co-workers for a raise or a bonus.

Professor Pfeffer blames the economic theory that is learned in business schools and transmitted to human resources professionals by executives and the media for the persistence of belief in pay myths. These economic theories are based on conceptions that human nature is uni-dimensional and unchanging. In economics, humans are assumed to be rational maximizers of their self-interest, and that means they are driven primarily, if not exclusively by a desire to maximize their incomes. The inference from this theory, according to Pfeffer, is that "people take jobs and decide how much effort to expend in those jobs based

on their expected financial return. If pay is not contingent on performance, the theory goes, individuals will not devote sufficient attention and energy to their jobs."

Further elaboration of these economic theories suggest that rational, self-interested individuals have incentives to misrepresent information to their employers, divert resources to their own use, to shirk and "free ride", and to game any system to their advantage *unless* they are effectively thwarted in these strategies by a strict set of sanctions and rewards that give them an incentive to pursue their employer's goals. In addition there is the economic theory of adaptive behavior or self-fulfilling prophesy, which argues that if you treat people as if they are untrustworthy, conniving and lazy, they'll act accordingly.

Pfeffer also cites the compensation consulting industry, which, he argues, has a financial incentive to perpetuate the myths he describes. More important, the consultants' own economic viability depends upon their ability to convince clients and prospective clients that pay reform will improve their organization. Consultants also argue that pursuing pay reform is far easier than changing more fundamental aspects of an organization's structure, culture, and operations in order to try to improve; further, they note that pay reform will prove a highly visible sign of willingness to embark on "progressive reform." Finally, Pfeffer notes that the consultants ensure work for themselves through the inevitable

"predicaments" that any new pay system will cause, including solving problems and "tweaking" the system they design.

In the context of media hype, accounting rules that encourage particular forms of individual economic incentives, the seeming truth of economic theories' assumptions on human nature, and the coaxing of compensation consultants, it is not surprising that many succumb to the temptation of individualized pay for performance schemes. But do they work? Pfeffer answers with the following:

> Despite the evident popularity of this practice, the problems with individual merit pay are numerous and well documented. It has been shown to undermine teamwork, encourage employees to focus on the short term, and lead people to link compensation to political skills and ingratiating personalities rather than to performance. Indeed, those are among the reasons why W. Edwards Deming and other quality experts have argued strongly against using such schemes.
>
> Consider the results of several studies. One carefully designed study of a performance-contingent pay plan at 20 Social Security Administration (SSA) offices found that merit pay had no effect on office performance. Even though the merit pay plan was contingent on a number of objective indicators, such as the time taken to settle claims and the accuracy of claims processing, employees exhibited no difference in performance after

> the merit pay plan was introduced as part of a reform of civil service pay practices. Contrast that study with another that examined the elimination of a piece work system and its replacement by a more group-oriented compensation system at a manufacturer of exhaust system components. There, grievances decreased, product quality increased almost tenfold, and perceptions of teamwork and concern for performance all improved.[1]

Compensation consultants like the respected William M. Mercer Group report that just over half of employees working in firms with individual pay for performance schemes consider them "neither fair nor sensible" and believe that they add little value to the company. The Mercer report says that individual pay for performance plans "share two attributes: they absorb vast amounts of management time and resources, and they make everybody unhappy."

One further problem cited by both Pfeffer and other academic and professional observers of pay for performance is that since they are virtually always zero-sum propositions, they inflict exactly as much financial hardship as they do financial benefit. In the federal government as in many private firms, a fixed percentage of the budget is allocated for salaries. Whenever the resources available to fund salaries are fixed, one employee's gain is another's loss. What incentives does this create? One strategy that makes sense in this context is to make others look bad, or at least relatively bad. Competition among workers in a particular work

[1] "Six Dangerous Myths about Pay", by Jeffrey Pfeffer, Harvard Business Review, May-June 1998 v. 76, no.3, page 109 (11).

unit or an organization may also, rationally, lead to a refusal on the part of individuals to share best practices or teach a coworker how to do something better. Not only do these likely outcomes of a zero-sum approach obviously work against the stated reasons for imposing pay for performance; they actually lead to outcomes that are worse than before.

What message would the federal government be sending to its employees and prospective employees by imposing a pay for performance system? At a minimum, if performance-based contingent pay is on an individual-by-individual basis, the message is that the work of lone rangers is valued more than cooperation and teamwork. Further, it states at the outset that there will be designated losers – everyone cannot be a winner; someone must suffer. In addition, it creates a sense of secrecy and shame regarding pay. In contrast to the current pay system that is entirely public and consistent (pay levels determined by Congress and allocated by objective job design criteria), individual pay adjustments and pay-setting require a certain amount of secrecy, which strikes us as inappropriate for a public institution. An individual-by-individual pay for performance system whose winners and losers are determined behind closed doors sends a message that there is something to hide, that the decisions may be inequitable, and would not bear the scrutiny of the light of day.

Beyond compensation consultants, agency personnelists, and OPM, who wants to replace the General Schedule with a pay for performance system? The survey

of federal employees published by OPM on March 25 may be trotted out by some as evidence that such a switch has employee support. But that would be a terrible misreading of the results of the poll. AFGE was given an opportunity to see a draft of some of the poll questions prior to its being implemented. We objected to numerous questions that seemed to be designed to encourage a response supportive of individualized pay for performance. We do not know whether these questions were included in the final poll. The questions we objected to were along the lines of: Would you prefer a pay system that rewarded you for your excellence, even if it meant smaller pay raises for colleagues who don't pull their weight? Do you feel that the federal pay system adequately rewards you for your excellence and hard work? Who wouldn't say yes to both of those questions? Who ever feels adequately appreciated, and who doesn't secretly harbor a wish to see those who *appear* to be relatively lazy punished? Such questions are dangerously misleading.

The only question which needs to be asked of federal employees is the following: Are you willing to trade the annual pay adjustment passed by Congress, which also includes a locality adjustment, and any step or grade increases for which you are eligible, for a unilateral decision by your supervisor every year on whether and by how much your salary will be adjusted?

It is crucial to remember that the OPM poll was taken during a specific historical period when federal employees are experiencing rather extreme attacks on their

jobs, their performance, and their patriotism. The Administration is aggressively seeking to privatize 850,000 federal jobs and in many agencies, is doing so in far too many cases without giving incumbent federal employees the opportunity to compete in defense of their jobs. After September 11, the Administration began a campaign to strip groups of federal employees of their civil service rights and their right to seek union representation through the process of collective bargaining. The insulting rationale was "national security" and the explicit argument was that union membership and patriotism were incompatible. Some policy and lawmakers used the debatc over the terms of the establishment of the Department of Homeland Security as an opportunity to defame and destroy the reputation, the work ethic, loyalty, skill and trustworthiness of federal employees. And out of all of this has come an urgent rush to replace a pay system based upon objective criteria of job duties, prerequisite skills, knowledge, and abilities, and labor market data collected by the BLS with a so-called pay for performance system based on managerial discretion.

In this historical context, federal employees responded to a survey saying that they were satisfied with their pay. In fact, 64% percent expressed satisfaction and 56% believed that their pay was comparable to private sector pay.

But as the representative of 600,000 federal employees, AFGE would suggest that they are satisfied with their pay system, not their actual paychecks. Since the alternatives with which they have been threatened seem horrendous by

comparison, expression of satisfaction with the status quo in a survey sponsored by an agency determined to give managers discretion or "flexibility" over pay is no surprise.

Perhaps more important for the subject of pay for performance in the context of the survey is the fact that 80% report that their work unit cooperates to get the job done and 80% report that they are held accountable for achieving results. Only 43% hold "leaders" such as supervisors and higher level management in high regard; only 35% perceive a high level of motivation from their supervisors and managers, and only 45% say that managers let them know what is going on in the organization.

In this context, it seems reasonable to ask if the majority of employees are relatively satisfied with their pay, why the frantic rush to change? If federal supervisors and managers are held in such low regard, how will a system which grants them so much new authority, flexibility, unilateral power, and discretion be in the public interest? How will a pay system that relies on the fairness, competence, unprejudiced judgement, and rectitude of individual managers be viewed as fair when employees clearly do not trust their managers? Given that less than a third of respondents say managers do a good job of motivating them, is pay for performance just a lazy manager's blunt instrument that will mask federal managers' other deficits?

No discussion of federal pay is complete without consideration of funding. To the extent that pay for performance is proposed as a replacement for the General Schedule that would be "budget neutral" and exclude additional funding, AFGE will work in opposition. Federal salaries are too low, and they are too low not just for prospective employees, or employees in "hard to fill" positions or employees who intend to stay in government for short periods – federal salaries are too low for all federal employees. There may be legitimate disputes about the size of the gap between federal pay and non-federal pay, but it is indisputable that federal salaries are too low across-the-board.

As I mentioned, we are grateful and supportive of Congressional attention toward the inadequacy of federal compensation. We are also supportive of those who are looking for ways to reward federal employees financially for excellent and extraordinary performance. But at the same time we caution that rewards for excellence and extraordinary acts must be supplements to a fully funded regular pay system, not substitutes; and these supplements must be fully and separately funded. In addition, we support the provisions in S.129 and H.R. 1601 that provide training for managers and other employees. We applaud the recognition that failure to deal appropriately with poor performance is not a matter of the absence of authority or flexibility on the part of management, but rather a problem of either reluctance or poor training. Further, this provision recognizes that dealing with poor performance is a management problem and a discipline problem, not a pay system problem.

Our recommendations for a set of policies that would truly resolve the government's human capital crisis by facilitating a transition from one generation of well-trained, professional, and apolitical civil service employees to another are as follows:

1. Predicate authorization to exercise any of the enhanced management flexibilities described in S.129 and H.R. 1601 on the implementation of FEPCA's pay comparability provisions. Funding competitive salaries for all federal employees, and allowing the locality pay system to operate in order to bring federal salaries up to 90% of comparability should be the trigger that allows expansion of authority to pay large recruitment or retention bonuses in exceptional circumstances.
2. Enact legislation that would put an immediate end to the ruinous and irrational practice of mandatory privatization quotas. Require that federal employees be given an opportunity to compete for a fraction of new government work and the same proportion of government work that has already been contracted out as is competed for work currently performed by federal employees. End the practice of direct conversion and direct privatization, which are contrary to the interests of taxpayers, agencies, and federal employees. Direct conversions and direct privatization deprive federal employees of the opportunity to compete in defense of their jobs, and prevents taxpayers and agencies from getting the best quality services at the

lowest possible cost. Reject legislative and administrative attempts to impose "best value" competitions (sic) on public private competitions which allow contractors to obtain government work on the basis of subjective factors and load those contracts with costly and unnecessary bells and whistles, while at the same time deprive federal employees and small businesses the opportunity to have a fair shot at keeping or obtaining the chance to perform the government's work.

3. Pass legislation that improves the funding formula for the Federal Employees Health Benefits Program (FEHBP) so that this benefit more closely resembles the health insurance programs that successful, large public and private sector organizations provide their employees. Some 250,000 federal employees are uninsured altogether in spite of their eligibility to participate in FEHBP. Their uninsured status is because they cannot afford the high premiums and high share of premiums required by FEHBP. Legislation introduced by Representative Steny Hoyer (D-Md.), H.R. 577; and Senator Barbara Mikulski (D-Md.), S. 319; would improve FEHBP funding to an 80% employer-20% employee premium split. We believe that passage of this legislation would go a long way toward making the federal government a more attractive employer.
4. Resist the temptation to jump on the anti-employee pay for performance bandwagon, whether for the Department of Defense, the Department of Homeland Security, or any other federal agency or department. Pay for performance schemes are, for the many reasons discussed above, a

dangerous recipe for mismanagement, discord, discrimination, and destruction of morale and public sector ethos. We urge the Subcommittees to reject these schemes, and all requests for either agency by agency, or governmentwide authority to abandon the General Schedule and waive related chapters of title 5 that have successfully kept the civil service apart from politics, and allowed the federal workforce to be hired, fired, paid, promoted, disciplined, and communicated with on the basis of merit system principles. These laws exist to prevent our government agencies and programs from falling prey to a spoils system, and we urge you to retain your ability to make sure that they continue to be strong and successful in that endeavor.

This concludes my testimony, and I would be happy to answer any questions Members of the Subcommittees may have.

Testimony
of
Colleen M. Kelley
National President
National Treasury Employees Union

on

The Human Capital Challenge: Offering Solutions and Delivering Results

April 8, 2003
9:30 a.m.

Senate Subcommittee on Oversight of Government Management
and
House Subcommittee on Civil Service
342 Dirksen Senate Office Bldg.

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Chairman Voinovich, Chairwoman Davis, thank you very much for giving me the opportunity to appear before your two Subcommittees today on the human capital challenge facing the federal government. I am Colleen Kelley, the National President of the National Treasury Employees Union (NTEU), and I appear today on behalf of the more than 150,000 federal employees represented by NTEU.

As you know, for entirely too long now, too little attention and too few resources have been spent on the federal government and its employees. The crisis we face today is the result of that failure. Turning the human capital crisis around will require investing in federal employees - in their training, in their workplaces and in the federal government's most important resource – the employees themselves - something that has been a foreign concept for the federal government.

The message too often received by today's federal workforce is that they are not valued. Many believe their pay is inadequate, but they don't see Congress and the Administration committing the resources necessary to develop a fair and appropriate pay setting process. Many also believe, based on years of experience, that their agencies will not receive sufficient resources to either allow employees to be properly trained, to do a good job or to receive the recognition they should when they perform above expectations. The other unfortunate message so many of today's federal employees receive is that even as they struggle to perform to the best of their abilities, the leadership of their agencies

may be plotting to contract their positions out from under them. Is it any wonder the federal government is having a hard time recruiting and retaining the best employees?

NTEU does not believe it is possible to solve the crisis facing the federal government without a commitment to establish a fair process for setting federal salaries. Although the Fiscal Year 2003 federal pay raise was recently settled, it came only after a long and public fight that again, sent the wrong message to the federal workforce.

As you know, while the President recommended a 4.1% pay raise for the Nation's military employees in 2003, he called for only a 2.6% raise for federal civilian employees. Despite strong bipartisan and bicameral support for pay parity between the Nation's federal civilian and military employees and language in both the House and Senate Budget Resolutions and appropriations measures making this clear, the President ignored Congress' intent and implemented a 3.1 % pay raise late last year.

When Congress returned early in 2003, they restated their strong support for the 4.1% pay raise for federal employees. Although the legislation was signed into law and the amount of the 2003 federal pay raise has finally been settled, federal employees have yet to receive the additional 1% of pay. Today is April 8, 2003 and the full federal pay raise that should have been received in January has not yet reached federal employee paychecks. There is no question as to what message this sends.

Once again, in its Fiscal Year 2004 budget, the Administration has shown a total lack of concern for what failure to properly compensate the Nation's public employees means for the future of public service. For 2004, the Administration has proposed another 4.1% pay increase for the Nation's military employees, but a paltry 2% for the federal civilian workforce. The message this unmistakably sends to employees- even to those employees on the front lines of helping secure our Nation's borders – is that their work is not as important, not as valued, and not as vital as that of their military counterparts.

Fortunately, this is not the message Congress wants to send to the federal workforce. Instead, despite the Administration's opposition, both the House and Senate 2004 Budget Resolutions contain language once again affirming Congress' strong support for the concept of pay parity between military and civilian employees of the federal government. NTEU applauds that action.

I also want to comment on the Administration's proposal to create a $500 million Human Capital Performance Fund. Funding for this new gimmick comes at the expense of the 2004 federal pay raise. Rather than putting this $500 million toward a more appropriate pay raise, the Administration would give managers unfettered discretion to give incentive pay to a fraction of the federal workforce. The only thing this is likely to accomplish is a further decline in employee morale.

As you know, no annual pay raise has even been close to the level called for in the federal pay law. In NTEU's view, until such time as federal pay is comparable to that paid in the private sector for similar work, a performance fund like the one the Administration has suggested has no business being considered. This should not be just another excuse not to close the pay gap.

In addition to compensation, benefits play a key role in the federal government's ability to attract and retain the workforce it will need for the future. The Federal Employees Health Benefits Program (FEHBP) is in crisis. The 11.2% premium increase for 2003 marked the fifth year in a row of exorbitant rate increases in the federal health program. As you also know, federal employee salary increases have not kept pace with these rate hikes, forcing many employees to examine whether or not they can afford to be covered by the federal health insurance program. There is little question that this is also a key consideration for employees considering employment with the federal government.

While health insurance costs have risen steadily in the private sector as well, private sector employees continue to pay, on average, **less** for their health insurance – both in terms of percent of premium and in terms of monthly cost. The respected Kaiser Family Foundation's 2002 Annual Survey of Employer Health Benefits reports that, "on average employees are now paying $38 per month for single coverage and $174 each month for family coverage."

Compare this to the average federal employee choosing the most common FEHBP plan, Blue Cross-Blue Shield Standard Option Self Only coverage. That individual will pay $98.93 each month compared to his or her private sector counterpart who pays an average of $38 monthly for similar health coverage. A federal employee choosing family coverage under Blue Cross Standard Option will pay $227.98 each month, again, significantly more than his or her private sector counterpart.

The sharp contrast continues when we look at the percentage of premium employees must absorb. The federal government currently pays 72% of the health insurance premium for its employees. Yet, the Kaiser study points out that on average, employees in the private sector are required to pay only 16% of premium for self only coverage and 27% for family coverage.

As Chairman Voinovich knows, NTEU strongly supports legislation to increase the government's share of FEHBP premiums for its employees from the current average of 72% to 80%, bringing the federal government more into line with those private sector and state and local government employers with which it competes. Bipartisan legislation, H.R.577, has been introduced in the House to accomplish this goal and I strongly encourage you, Chairwoman Davis to carefully review and cosponsor this legislation. Similar legislation has been introduced in the Senate, S.319. I would also encourage you, Senator Voinovich, to cosponsor this critical piece of legislation.

Employee training is another critical piece of the pie. It, too, must be properly funded. Holding agencies to unrealistic funding levels has, among other things, restricted their ability to adequately train their employees. Often, employees don't receive the proper training to either perform their missions effectively or enhance their abilities and prepare them for advancement within their agencies. Without proper training, everyone loses – customers do not receive the best service and employees do not find their work rewarding or challenging.

The Administration's march to contract out 850,000 federal jobs through arbitrary quotas imposed on agencies has served as yet another disincentive to federal employment. These one size fits all quotas are being forced down agencies' throats without thought to their potential impact on the federal government's ability to recruit and retain employees, and without thought as to whether or not it is appropriate to contract out these functions. Employees have told me that the message they believe their agencies are conveying to them is this: we may hire you, we may train you, we may even promote you, but when it comes time to meet our contracting out quotas, we may eliminate your job in order to meet our targets. What private sector employer sends such a message to employees it is trying to either recruit or retain?

These blind contracting out quotas continue to erode the morale of the federal workforce, disrupt agency operations and generally send a message to all who might apply – don't bother if you are seeking any level of job security. I think we all agree that government services should be delivered in the most efficient and cost effective manner,

however, if we are truly concerned about agencies' ability to carry out their missions, Congress must act to stop the Administration's blind contracting out quotas before even more harm is done.

I also want to comment on legislation Senator Voinovich has recently introduced that is pending before this Committee, S.129. The Federal Workforce Flexibility Act of 2003 seeks, in part, to streamline the process for setting up demonstration projects. NTEU is not opposed to the use of demonstration projects and in fact, continues to believe that demonstration projects are a valuable method of experimenting with new pay and work arrangements.

NTEU further believes that the type of experimentation that can be accomplished through demonstration projects works best when all parties are clear that they have a voice in the process. To this end, we believe that the collective bargaining process is invaluable in ensuring that both management and employees understand the nature of the demonstration project and are committed to its success. Efforts to empower and involve employees in the goals of their agencies leads to employees with commitment and a sense of attachment to their workplaces. Involving employees in decisions before changes are made helps make employees feel a sense of commitment to the process, and a desire to make their workplace as efficient as possible, something we all strive to achieve.

The legislation also proposes providing additional flexibility to agencies in the use of recruitment, relocation and retention bonuses. I must point out that the key reason

these bonuses are not used more frequently now is that agencies do not have adequate funding for this purpose. Without additional funding for these recruitment and retention tools, the only way agencies will be able to increase their use is by further gouging their training budgets and placing added stress on their salary and expense accounts.

OPM's own data show that budgetary constraints are the main reason these important tools are so infrequently used. Expanding the availability of these incentives makes little sense if agencies are not provided with the resources to accomplish the goal. It is critically important that the Committee ensure that appropriate funding will be forthcoming before giving false hope to agencies that additional bonus options are available to them.

NTEU also has concerns about the expanded use of critical pay authority that is recommended in S.129. Although some have argued that expanding this authority is necessary if the government is going to compensate highly qualified individuals on a level similar to what they might command in the private sector, serious issues have been raised both within and outside government about the federal government's use of critical pay authority to date. Moreover, NTEU believes that inadequate pay prevents the federal government from being competitive at **all** levels of government. Properly compensating the federal workforce would make further critical pay authority unnecessary.

NTEU welcomes the fact that the Senator's legislation draws long overdue attention to the federal government's need to properly train its employees. However, the

legislation does nothing to address the resource problems that have prevented agencies from providing necessary training to their employees in the first place. As we already know, absent Congressional intervention to provide increased resources to agencies for this purpose, little will change.

I also want to comment on the provision in S.129 that would enhance annual leave for certain new federal employees. The section would permit the head of an agency to deem a period of qualified non-federal experience as federal service for leave purposes. It is my understanding this section would apply to mid-career federal employees. Members of the Senior Executive Service and other senior level employees would be granted eight hours of annual leave each pay period regardless of their years of federal service. In addition, the Office of Personnel Management would be authorized to extend coverage of this section to other "equivalent" categories of employees.

As you know, rank and file federal employees must work 15 years for the federal government before earning eight hours of annual leave per pay period. If Congress believes that annual leave limits are a barrier to hiring, then the system should be reformed. However, NTEU strenuously objects to proposals to grant only senior executives and other unspecified mid-career federal employees additional leave time while leaving the current system in place for the rest of the workforce. If the annual leave system is a deterrent to recruitment and retention of employees, we would be happy to work with this Committee to reform it.

In conclusion, NTEU very much appreciates the opportunity to appear before you today. It is important that we have discussions like this and that we search for the right solutions to the problems we know the federal government and its employees face. NTEU thinks it is also critically important that throughout this process we think about the messages we are sending to our current and potential public servants and that we make sure the messages are the ones we want them to receive: We want you to apply to work for the federal government. We want you to be successful. We value what you do every day for the American public. I look forward to working with you toward this end. Thank you.

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TESTIMONY
of

CAROL A. BONOSARO

President

SENIOR EXECUTIVES ASSOCIATION

Before the

SENATE GOVERNMENTAL AFFAIRS COMMITTEE,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
THE FEDERAL WORKFORCE AND THE DISTRICT OF COLUMBIA

and the

HOUSE GOVERNMENT REFORM COMMITTEE,
SUBCOMMITTEE ON CIVIL SERVICE AND AGENCY ORGANIZATION

April 8, 2003

The Senior Executives Association (SEA) appreciates the invitation of the Subcommittees to testify at this hearing and commends the Subcommittees' interest in and concern for Federal human capital management. It is especially important to focus on government-wide reform, rather than continuing to have the piecemeal reform which the Volcker Commission called disjointed "tinkering around the edges" which has contributed "to many of the problems we must now correct." This tinkering doesn't save money, but probably costs more as exceptions continue to proliferate, with the result a crazy quilt instead of coherent reform with flexibility within uniform principles.

You requested that we provide an assessment of the current workplace environment, particularly as it impacts Senior Executives. Regrettably, that environment is not entirely positive. There is no question that career executives are dedicated to public service, are committed to the important work they do, care deeply about their jobs, and do not shrink from the challenges of leadership. However, the downsizing of the past decade, the sometimes insufficiently funded program changes, efforts to reinvent government and improve customer service and management - all have taken their toll. Too many executives report being stretched thin and having no "bench strength" in their agencies.

But, more important, the focus by the Administration over the past two years on what are apparently viewed as inflated performance ratings, taken with the reluctance – until now -to address pay compression, has contributed to substantial demoralization. Given the difficulty of entry into the SES, it would be surprising if these executives were not high performing. Nonetheless, the issue of performance management is one which is best handled within the confines, for example, of the President's Management Council, where appointees could be told clearly that the President expects accountability to permeate the performance system.

However, the conversation was held publicly, and handled in a way that some executives have asked whether the Administration thinks they are all incompetent. And these include executives who have been working long hours, for example, to support military operations.

Finally, because pay compression was not caused by poor performance, but, rather, by Congressional pay freezes, and because the Senior Executive Service is a model pay for performance system, Senior Executives are now perplexed, at best, by the proposal to raise pay caps, but to provide no assurance of pay relief to them individually. And they suspect that such a system will not have the necessary resources for implementation. That is not an unfounded concern; they know that there is, annually, a great debate over the adjustment in General Schedule salaries, but that the issue of executive pay compression draws little, if any, attention.

One week ago, the Senior Executives Association (SEA) testified on executive pay issues at the House Civil Service and Agency Organization Subcommittee hearing on compensation reform for federal employees. The focus of our testimony was on Senator Voinovich's draft bill on SES reform, a version of which since has been introduced as S. 768, the Senior Executive Service Reform Act of 2003.

Therefore, my testimony will respond first to the parts of S. 768 that address SES pay and the efforts to relieve pay compression.

Pay Compression Concerns

These are the regrettable facts: SEA was founded in large part due to the severe pay compression which existed in 1980, we have had to return to this issue over and over during the last 23 years, and, today, we find ourselves in an even worse position with regard to pay. Indeed, pay compression has reached such critical proportions that, unless corrected, it threatens to destroy the Senior Executive Service.

After being frozen five of the last ten years, **the pay cap has filtered down through the ranks of the SES and approximately 70% of all career executives now receive the same pay**. In 1994, total pay at the ES-6 level was capped in one locality. This year, however, ES-4, ES-5, and ES-6 (the top three ranks) are all capped at Executive Level III (the statutory maximum for SES base plus locality pay) in all 32 localities. Likewise, ES-3 is now capped in 15 localities. In Houston and San Francisco, even ES-2 is capped at the same pay as the top rank of the SES. (See 2003 Pay Chart, Attachment I.)

If the Executive Schedule (which sets the statutory maximums for the SES) had mirrored the General Schedule national comparability raise since 1994, EL-II (the pay rate for Members of Congress) would be $171,000 this year instead of $154,700.

This situation is unfair and would be unthinkable in any private sector corporation, yet both the Administration and Congress have tolerated it. The Administration, finally, has proposed some relief, and Senator Voinovich has introduced legislation in the Senate that will help. SEA welcomes the Administration's proposal and the action in the Senate but does have concerns about the Administration's proposal, which we will address.

We believe it is instructive to consider the underlying concerns and attitudes, which form the arguments that have hindered resolution of the pay problem and may continue to prove troublesome, even with the Administration's changed position.

First, **the pay problem is viewed (incorrectly) by some as overblown because career executives are not retiring in record numbers.** While executives may not be retiring in record numbers, many are prepared to retire as soon as they are eligible.

- Many will retire because they are demoralized by the failure to solve the pay problem - which signals they are not valued - while they continue to face extraordinary managerial and program demands at their agencies.

- Many will retire because they are unable to continue resisting very attractive offers from private industry (and to justify doing so to their families).

- Many will retire because they know that, in retirement, they will see greater increases in their annuities than they have seen in their pay. From 1994 to 2002, the average annual COLA adjustment on retirement annuities was 2.5%, which was higher than the average pay increase for Senior Executives at the ES-4, ES-5 and ES-6 levels during the same time period.

- Those who have stayed on after September 11, feeling a sense of responsibility to their agencies and their country, cannot be expected to do so indefinitely.

And it is worth noting that, as more and more executives are covered by FERS, and not the "golden handcuffs" of CSRS, there will be even less incentive to remain in such conditions as exist at present.

With the number of executives projected to be eligible to retire by fiscal year 2005 (fully 70% of the corps) and with the critical challenges facing the Federal government, the question which must be asked is - can we afford to wait until the ranks of the career corps are depleted before resolving the pay problem? This is a dangerous game to play.

It is particularly dangerous because of the impact it is having on the "feeder" groups of GS-14's and 15's who could be expected to take the place of these executives.

To understand the human impact of this problem, we point to one Justice Department executive's words to SEA that summed up the problem:

> "I love and believe in the mission of government and the importance of having bright, caring and responsible people serving that mission. As an executive nearing retirement eligibility and feeling very burned out by pay stagnation and the compromises it has forced on those I love, I am trying desperately to do the succession planning my office will need to manage in the years to come. I never thought that I would be considering leaving on (my retirement) eligibility (date), but now I project I will. I feel I have no choice if I am to provide adequately for my family. I have never been so disheartened at the possibilities - my best and brightest repeatedly advise me that they see no future for themselves in government despite their love for it and commitment to it."

Second, **some view (incorrectly) the cost of resolving executive pay compression as inhibiting**. The fact is that in 2002 the Congressional Budget Office stated the first year cost of implementing new pay caps (under the current statute) as $24 million, hardly a prohibitive price to pay to keep the talent in government that we need.

Third, **some view (incorrectly) resolution of pay compression as an effort to provide comparability with private industry and view data indicating a government/private industry pay gap as flawed**. SEA has never argued for - and neither would career executives expect - comparability with private industry. However, the cost of public service has become too high and represents an unreasonable sacrifice. Rather, there should be a reasonable relationship between the two sectors.

To understand how government executives compare with their private sector peers, SEA contracted with the Hay Group from 1993 to 1996 to conduct annual studies comparing compensation of SES positions with that of comparable positions in private industry. A representative sample of SES positions was selected (across a range of agencies, SES pay rates, and functions) from Hay's data bases of SES evaluated positions. Using Hay's job content evaluation points, SES positions were compared to their precise counterparts which Hay had

evaluated in a wide variety of industrial organizations and service industries, as well as in some nonprofit organizations and local governments.

These precise comparisons of government executives' pay to that of their exact counterparts in private industry provide data which is not open to the criticisms directed at other, more general pay studies.

Results from the 1996 study, "Comparative Analysis of SES Base Salary, Total Annual Cash Compensation, Benefits and Total Remuneration," were as follows:

- Average SES total cash compensation (including bonuses) ranged from 42% to 68% of that of average industry total cash compensation for jobs of the same difficulty.

- Put another way, SES total compensation for these positions would have to be increased by a range of 46% to 137% to attain comparability with private industry.

SEA discontinued supporting these studies because the four that were conducted showed a gap that was steadily increasing each year and that was not expected to be reversed.

Fourth, **a resolution of pay compression is viewed as providing inappropriate across-the-board increases, as contrasted to providing "pay for performance**." We are compelled to note that pay compression did not build because of poor performance by the executive corps; it built because of the unwillingness of Congress to either abide by the annual pay adjustment provisions of the Ethics Reform Act or to exempt just itself from annual adjustments and permit them to be applied to the rest of the Executive Schedule.

Even more important, **the Senior Executive Service is a pay for performance system as currently constituted**. In fact, it can be viewed as a model pay for performance system. The current performance management system gives agencies the flexibility and discretion they need to ensure that they can use performance information to adjust pay and to reward (or penalize) executives, as appropriate. This system already has a high level of subjectivity, which almost every other federal employees group which testified at the April 1, 2003, Civil Service Subcommittee hearing would find objectionable. Yet, Senior Executives have learned to accept this subjectivity as part of the risks and rewards of being in the SES.

An executive's pay rank can be increased to reward his or her performance, and that performance can also be recognized by payment of an annual bonus, as well as by awarding a Presidential Rank of Distinguished or Meritorious Executive. The bonuses are totally at the discretion of the agency head, are granted or denied totally on the basis of performance, and do not constitute pay increases, but rather recognize the accomplishments of an executive in a given year. At present, there is suspicion that the bonus system is being used as a pay supplement in some agencies. While the Senior Executives Association strongly prefers to resolve pay compression head on, rather than relying on bonuses, the use of bonuses as a pay surrogate is not unexpected or unreasonable under the circumstances.

Apart from the ability to reward performance, however, agencies are free to reduce an executive by one pay rank each year and are only required to provide a reason for doing so. In

the small percentage of cases when an agency must deal with a poor or non-performer, the agency need only be willing to take the performance appraisal process seriously.

In fairness, that requires that the executive be given 1) performance standards which reflect the agency's goals and the superior's expectations, 2) an opportunity to meet those standards and 3) feedback during a progress review. Indeed, the current performance management system provides for precisely this process; however, a 1999 survey of Senior Executives conducted by the Office of Personnel Management in cooperation with SEA found that 8% of all career executives did not have a performance plan and 14% had a performance plan developed 2 or more years ago.

Further, the current system gives agencies virtually unfettered and unreviewable discretion to remove non-performing Senior Executives from the SES. That is so because the statute allows, and in some cases requires, removal of an executive who receives an unsatisfactory performance appraisal. An executive who receives an unsatisfactory annual summary rating must be reassigned or transferred within the SES but also may be removed; an agency MUST remove from the SES an executive who receives two unsatisfactory annual ratings in any 5 year period. Underlying the agency's authority to deal with non-performers is the fact that performance appraisals and ratings are not appealable.

To the degree that these tools have not been used to fully realize the "pay for performance" nature of the SES, then only one conclusion is possible - political appointees and other superiors who supervise Senior Executives do not have the disposition, or are unwilling to invest the time and energy, to use the tools at their disposal. And no amount of process or structure changes will magically cause them to do so.

Fifth, **some view (incorrectly) the tie with congressional pay as presenting an insurmountable barrier to resolving pay compression**. Resolving compression should not relate to congressional pay. This is the finding of the Volcker Commission Report. Further, if SEA's proposals, which we discuss today, are adopted, the cap on Senior Executive base pay will still be less than Congressional pay, and reasonable and certain provisions for future pay cap increases will assure this problem is not revisited again any time soon.

Sixth, **some believe (incorrectly) that pay compression is best resolved by providing special pay schemes on an agency or occupational basis**. As a result, for example, the Internal Revenue Service has authority to pay 40 employees (who must come from outside the agency or the government) up to the salary of the Vice President, and the Securities and Exchange Commission has recently been given authority for a separate pay system.

SEA opposes such solutions. The proliferation of such special authorities continues a piecemeal attack which does nothing to address a pay problem which is most severe in the SES ranks government-wide. To the contrary, it removes any impetus that does exist for addressing pay compression.

Special authorities are sometimes justified by the need to bring higher priced talent in from outside government, as in the IRS. Thus, we are apparently content, on the one hand, to continue to drive experienced, talented executives out of government by our refusal to address pay compression and, on the other hand, to recruit higher paid executives from outside

government. The message we send to federally "grown" executives is that they are worth less than those hired from outside government, that they have erred in devoting their careers to public service. We fail to see the wisdom of this solution and urge, instead, addressing the overall executive pay problem.

There is a paradox here upon which we are compelled to comment. Ever since the establishment of the Senior Executive Service by the Civil Service Reform Act of 1978, OPM and others have regularly bemoaned the failure of the SES to produce a corps of generalist executives - and have regularly suggested the removal of executives with technical or professional skills and competencies from the SES. Yet special pay authorities often would reward exactly such executives, provided they are recruited from the private sector.

The Administration's Proposal and S. 768

We note that S. 768 and the Administration's recent proposal to lift the cap on executive pay are virtually identical. They both propose raising the base pay cap to Executive Schedule Level III and the locality pay cap from Executive Schedule Level III to Executive Schedule Level II. In essence, this would raise the locality pay cap from $142,500 to $154,700. Also, the new bill and the Administration both would eliminate the current Senior Executive Service ES 1 to 6 pay level system, replacing it with one band of pay for the SES.

According to comments from OPM, the increased payments that would be allowed by raising the two pay caps would be available only to those agencies which have a certified performance appraisal system that makes meaningful distinctions based on relative performance. This would be done through OPM regulations that would implement a similar provision imposed last year by the Homeland Security Act that lifts the cap on annual overall compensation (including bonuses, awards and allowances) only for Senior Executives in those agencies which have a certified performance appraisal system.

The lowest base pay of the planned band would be $102,000, with the highest base pay being Executive Level III or $154,700. Increases in pay, including annual comparability increases, would be at the discretion of a supervisor. S. 768 and the Administration proposal are both silent with regard to decreases in pay, except that the Administration has said that there will be no decreases during the first year. However, there is nothing in S. 768 itself that prohibits decreases in pay after the first year of the plan, and other provisions of law fail to provide appeal rights to Senior Executives whose pay is reduced. This differs from all other Federal employees who do have rights of review if they suffer a pay reduction.

SEA's Recommendations on Executive Pay

The Administration's proposal and S. 768 would make fundamental changes to the structure of the Senior Executive Service, as well as to the manner in which SES pay is set. Both would, at a minimum, eliminate executive ranks, set new caps on pay, and remove from the President his authority to set pay for the SES ranks, delegating that authority to agencies to utilize in setting the pay of individual executives. Because these changes are far-reaching, the Senior Executives Association believes that safeguards are necessary and appropriate to meet the following objectives: a) preserve the SES as a non-partisan, non-political corps; b) fairly reward those who do a good job; c) provide financial incentives to those who truly do outstanding

work; and d) demote or remove those who do unsatisfactory work. Therefore, the Senior Executives Association proposes a series of amendments to the Administration's plan and to S. 768.

Even with these amendments, however, we are compelled to note one overriding concern; that is, that if agencies have total flexibility to set base pay, pay rates may inevitably be influenced by budgetary considerations, namely, insufficient funds for appropriate raises. Executives in FAA have already experienced the situation that, in tight budget times, a performance based award system has the appearance of being inappropriate to fund, even while annual increases and awards remain funded for lower level employees.

Our recommendations for amendments are as follows:

1. The SES (Senior Executive Service) cap for base pay should be raised to Level III, as proposed. The cap on locality pay, however, should be eliminated, ensuring that executives receive full locality pay adjustments. Eliminating a cap on locality pay is consistent with the Volcker Commission Report and would prevent further pay compression based on the new locality pay cap.

2. The language at 5 U.S.C. section 5307 (concerning the cap for overall annual compensation that includes bonuses and awards) introduced as part of the Homeland Security Act and calling for certified performance appraisal systems should be reformed so that: (1) only OPM – and not OMB – promulgates the implementing regulations; (2) once certified, the certification cannot be removed for a four year certification period; and (3) the certified system cannot use a forced distribution of performance ratings. OMB should be excluded from participating in the process for certifying a performance system for career executives based on danger of partisan politicization of the system.

   While S. 768 does not contain an explicit provision requiring a certified performance appraisal system before implementing a salary increase based on the new pay caps, OPM has announced an intention to impose these types of requirements before an agency could pay higher salaries, as stated above. SEA will support certified performance appraisal systems as a condition for implementing an increase in salary caps so long as: (1) all bonuses and awards for executives are included in the pay computation for computing retirement annuities (this would institute a true pay for performance compensation system); (2) the regulations implementing the process come only from OPM and not OMB; (3) forced distributions of performance ratings are prohibited; (4) once certified, the certification cannot be revoked until the end of the 4 year certification period; (5) if an agency loses its certification, pay that was set while its system was certified will not be reduced; and (6) upon losing certification, no executive experiences a reduction in salary.

3. Senior Executives and all equivalent executives (including SL, ST, and BCAJ) should automatically receive the same annual increase to base pay that the General Schedule receives each year, regardless of the base pay cap (e.g., the 3.1% or 4.1% for this year and the 2% plus scheduled for next year). Such annual increases should not be at the discretion of supervisors.

4. The pay cap for base pay should be raised each year by the amount of the annual comparability increases (projected in the President's budget at 2% in 2004). This would be without regard to what Congress does for its own pay or the pay of the Executive Schedule.

5. The wide range of $102,000 to $154,700 proposed in S. 768 for SES pay should be abandoned and replaced with three overlapping pay bands. The lowest base pay within pay band 1 (the lowest level) would be at the current minimum rate for ES-1, $116,500, an amount that is at least sufficient to give a reasonable pay raise to a GS-15/10 who is promoted into the SES.
   Senior Executives would receive promotions to pay bands 2 and 3 based on standards in OPM regulations that reward executives for demonstrated capabilities, attained executive experience, and level of assumed responsibility. The ranges of pay for band 2 would overlap band 1 at the bottom and band 3 at the top. Pay band 3 would be set so that its highest base salary is Executive Schedule Level III. Executives would receive full locality pay on top of base pay. Upon implementation, current executives will go into a pay band that is the highest of (a) the lowest band that has a salary range that would allow the payment of their current salary OR (b) Band 1 for ES 1s and 2s, Band 2 for ES 3s and 4s, and Band 3 for ES 5s and 6s.

6. The following safeguards on SES pay should be implemented:

   a. A minimum pay increase of at least 5% would be established for each executive promoted from the General Schedule or equivalent personnel system upon entry into the SES. This then would become the executive's salary floor, and his or her salary could not be reduced to an amount less than that salary floor as adjusted by future comparability increases.

   b. An executive who is denied a salary increase for performance reasons in any calendar year will have the opportunity to appeal to the agency's Performance Review Board under the same process that is used for appealing performance appraisals. The Performance Review Board would continue to be required to have a majority of career SES members.

   c. Any reduction in pay within a pay band will be only for reasons related to conduct or performance and will be limited to an amount of not more than 3% of base pay in any calendar year. If pay is to be reduced for performance, the executive will have the opportunity to appeal to the agency's Performance Review Board under the process that is used for appealing performance appraisals. If it is for conduct, the executive will have full MSPB appeal rights.

   d. An executive who is demoted to a lower pay band shall have a right to an MSPB appeal with a final decision issued by MSPB based upon a substantial evidence standard of review. If the reduction is based on conduct, the executive may appeal to the MSPB under the normal criteria currently in place.

Limited Appointments

S. 768 also contains a provision reforming the law as it pertains to limited appointments. We also state our partial opposition to the expansion of the authority for limited appointments to the Senior Executive Service. Current law allows for noncompetitive SES limited term or limited emergency appointments. These appointments are limited to three years for limited term and 18 months for limited emergency appointments, and the total number of limited appointments may not exceed 5% of executive positions. At present, appointments may only be made to general SES positions.

The SES reform bill will allow for these appointments to be made for up to seven years with no limit on the number of appointees, no requirement for competition, and no requirement for approval by OPM of basic executive qualifications as is now the practice. These appointments would also be allowed to be made to SES career reserved positions.

We propose allowing the expanded authority for limited appointments but with limitations in numbers and requirements for OPM oversight of the qualifications of the appointees. We seek to limit the number of limited appointees to 1% of the total number of filled Senior Executive positions and to limit the number of limited appointees to career reserved positions to 1% of the filled career reserved positions. We also urge the requirement of a Qualifications Review Board process to be performed by OPM, much like the current process for career appointees.

Our proposal will allow for a reasonable use of limited appointment authority consistent with what we believe to have been the historical demand for such exceptions to the normal competitive process. Considering the expansion of the term of these appointments as proposed in the new bill, we believe it is imperative to have an OPM review of executive qualifications. This is a process that currently exists for career appointees, and one which data demonstrate has not delayed SES appointments. Our limitations on limited appointments will allow for agency flexibility, but, at the same time, will prevent the SES from becoming a temporary employment service filled with political favorites.

Annual Leave Enhancement

We support the provision in S. 129 and S. 768 for leave accrual at 8 hours per pay period for anyone entering the SES. We believe this will assist in recruiting and is a practice consistent with executive recruitment in the private sector.

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The following provisions are not in found any proposed legislation. We believe they are needed and should be considered. We propose the following:

Managers' Rights in the EEO Process

Federal managers and supervisors can expect to be named as the responsible management official (RMO) or the principal agency witness (PAW) in discrimination complaints one or more times in their federal careers. The overwhelming majority of discrimination cases in the federal

government are found to have no merit or result in a finding of no discrimination. More than 27,000 discrimination cases under the jurisdiction of the Equal Employment Opportunity Commission (EEOC) were closed in 2000 but only one percent (1%) resulted in a finding of discrimination, and 23 percent (23%) of cases were settled. The EEOC recently estimated that only 2½ percent of EEO complaints filed have merit. This means that 97½ percent of the time that an EEO complaint is filed, the manager has to endure and respond to frivolous charges.

Federal managers and supervisors are sometimes accused of discrimination in retaliation for having made an unpopular managerial decision. The fear of such complaints is often a barrier to effective managerial action, especially against problem employees.

Federal managers and supervisors are often denied promotions, bonuses and awards during the pendency of discrimination complaint for which they are named as the RMO or a PAW or because of unfounded allegations raised by disgruntled employees with an agency Inspector General's Office or the U.S. Office of Special Counsel. Simply being named as an RMO or PAW in a discrimination complaint unfairly brands the manager or supervisor as a discriminator, even when there has been no wrongdoing on the part of the manager or supervisor. Such allegations can also affect performance appraisals.

Managers and supervisors are subjected to the federal EEO process, but are not guaranteed a right to full participation and input. Federal agencies cannot be run effectively when the current state of the federal EEO system subjects its supervisors and managers to a process in which they lack basic rights but experience deleterious effects

The enactment of a managers' rights provision is necessary to enable managers to obtain full and fair information to allow them to respond to EEO complaints filed by subordinates. In addition, it is not unusual for a management official or supervisor to be denied bonuses, awards and/or promotions because of a pending IG or Office of Special Counsel investigation, or because of an EEO allegation or complaint in which the management official or supervisor is named as the responsible official. Therefore, we seek legislation to require the employing agency to retroactively grant such bonuses, awards, and promotions to the management official or supervisor in the cases where such investigations or complaints are found to have no merit. We also seek provisions allowing managers access to information and the right to participate in the EEO process so that they can defend their actions. This includes the right to be notified of a prospective settlement and to be advised when an EEO complaint has been concluded.

Professional Liability Reimbursement

In this same vein, we support proposed legislation requiring agencies to reimburse a minimum of 50 percent of the costs incurred by supervisors, management officials and law enforcement officers for purchase of professional liability insurance and allowing agencies to reimburse up to 100 percent of the costs, if the agency chooses.

Currently, 5 U.S.C. prec. 5941 note states that agencies may reimburse supervisors, management officials and law enforcement officers "for not to exceed one-half of the costs incurred by such employee[s] for professional liability insurance." A special provision applicable only to the CIA allows reimbursement up to 100 percent.

Professional liability insurance for managers and supervisors is a very important component to providing the peace of mind and protection from IG, whistleblower or EEO complaints from disgruntled subordinate employees. The presence of professional liability insurance encourages supervisors to deal appropriately with workplace problems and issues. Federal managers need the reassurance offered by having this insurance in order to make difficult management decisions in the workplace that could result in the filing of frivolous claims by employees who disagree with those decisions. Since most of these claims arise as a result of an executive or a manager simply doing his or her job, it makes sense for the federal employer to pay at least part of the cost of professional liability insurance. With this insurance, managers and supervisors are provided legal counsel if questions and legal action arise as a result of their exercise of professional judgment.

Currently, some agencies reimburse less than 50 percent of the premium, which now is less than $300.00 annually for the individual policyholder. We propose to require reimbursement of a minimum of 50 percent, and to allow a larger reimbursement, up to 100 percent, if the agency head deems it appropriate.

Awards and Bonuses Included in Retirement Computation

As recommended above, we seek to include performance and rank awards for SES members and SL/ST employees, as well as those in other equivalent systems (including specific statutory reference to those other equivalent systems), in the definition of "Basic Pay" for purposes of computing retirement benefits. Currently, bonuses and awards earned by executives are not counted toward retirement benefits under Title 5 (only basic pay and locality pay count toward benefits).

"Pay for performance" is now becoming the standard model for SES compensation as the Bush Administration focuses on Senior Executive performance and accountability. Senior Executives who receive bonuses and awards for outstanding performance will not be adequately compensated for exceeding expectations unless the bonuses and awards count toward the calculation of their retirement annuities.

The estimated cost of this proposal is $2.408 million government-wide. This is based on fiscal year 2000 data, when agencies spent a total of $34.4 million on awards and bonuses ($7.8 million on Presidential Rank Awards and $26.6 million on performance bonuses). The maximum estimated cost is 7% of this amount, or the agency's contribution toward CSRS retirement.

Phased Retirement

To help agencies cope with the expected massive retirements over the next several years, we propose to give agencies the authority to re-employ on a part-time basis after retirement career members of the SES and SL/ST personnel with no reduction in retirement annuities to those individuals. Currently, agencies are granted authority by OPM to re-employ without reduction in annuities only under very limited circumstances.

"Phased retirement" for career members of the Senior Executive Service (SES) and for Senior Level and Senior Technical personnel would allow agencies the flexibility to re-employ

on a part-time basis senior managers and technical personnel, who would experience no reduction in annuity, to ensure an adequate transition period between the employee's retirement and the hiring of his or her permanent replacement.

Members of the SES and SLs and STs are highly experienced executives and technical experts who possess historical knowledge of their agencies' operations and procedures, and have demonstrated the ability to lead their agencies' programs. Current projections show that more than two-thirds of Senior Executives will be eligible to retire over the next five years. The loss of such a significant number of the government's career leadership is a serious problem for many agencies, since they rely on the experience, knowledge and expertise of these individuals to satisfy their mission requirements.

Concern about the loss of such employees prompted the IRS to seek relief from the Office of Personnel Management by requesting a waiver from the retirement offset restrictions so that the IRS could re-employ annuitants with unusually high technical qualifications to support critical mission requirements. In addition, the Department of Defense sought and received statutory relief to the retirement offset for the re-employment of regular military officers to the civil service. After 9/11, the Office of Personnel Management relaxed application of these restrictions. We propose to allow agencies to make this decision but with limits, especially in light of the impending retirement boom.

SES Credit Hours

We propose that legislation be enacted to allow members of the SES the same right as other federal employees to accumulate and use credit hours.

The current provision, 5 U.S.C. Section 6126, allows employees on flexible schedules to accumulate and use credit hours, but the Office of Personnel Management has promulgated a rule that prohibits members of the SES from accumulating credit hours. Previously, agencies were free to make their own decisions regarding this matter.

There is no question that executives at many agencies, particularly those that operate 24 hours a day (such as VA hospitals and IRS service centers), put in long hours. This is part of the job of a Senior Executive. The problem arises when executives are called back to the office during the night or weekends, or whenever their responsibilities keep them working extremely long hours. Sometimes these executives will work through the night, go home to get some sleep, and arrive in the office later than their usual start hour to begin their next work day. Because of the credit hour restriction, these executives can and have become the subject of IG investigations because someone has claimed that they have not worked a full day or their required hours and have not taken annual leave. SEA believes that investigating these executives who are performing their jobs is a waste of agency resources and that removing the credit hour restriction for SESers and those in equivalent pay systems makes sense.

OPM offered some advice on this subject in a letter dated May 23, 2002 from Director Kay Coles James. However, the flexibilities detailed in the letter are inadequate and do not appropriately deal with the problems faced by Senior Executives who work long hours and who may need time off during the day to tend to personal matters that they have been unable to tend to earlier because of their busy schedules.

OPM Headhunter Program

To encourage greater executive mobility between federal agencies, we propose authorizing a centralized headhunter program which agencies can use to recruit the best in government for their senior level needs.

The focus of a centralized headhunter program would be on recruiting Senior Executives already in government for other positions at different agencies, as well as for new or different positions within their own agency. The program would be administered by OPM and would introduce more competition into filling SES vacancies and increase the prestige and value of the best executives in government. It would also encourage career executive employees to excel, so that they would be recruited. The program would not replace the competitive announcement process, but would be used to expand the pool of eligible applicants. Agencies should be encouraged to use the existing authority to provide recruitment, relocation and retention bonuses in recruiting the best in executive talent.

Because of negative perceptions over the years, mobility in the Senior Executive Service has had limited success. An SES member who volunteers to be considered for transfers to other agencies or reassignments within his or her own agency may be viewed as having problems in the current job. Sometimes, mobility has become a euphemism for being sent to the "turkey farm."

One way to solve this dilemma is to totally change the paradigm. The procedure to fill an SES position has always been the announcement of vacancies and the application of employees to fill those vacancies. It is presumed that enough good applicants will seek the position, and that the selecting official will be able to identify and select a good candidate. However, many times the best applicants do not apply.

A different paradigm based on the private sector practice of "headhunting" could solve these dilemmas. The Office of Personnel Management could establish a "headhunter program" that would require some startup costs, but could become self-sustaining if properly handled. By encouraging the recruitment of the best possible individuals for open SES positions, the headhunter program would benefit agencies, individual candidates (from inside the government and from the private sector), and the government as a whole. Some agencies already have active headhunter programs, but these often focus on external candidates rather than on internal career executives. The primary focus of this new headhunter program would be to find and promote candidates who already are government Senior Executives or GS-15s eligible for noncompetitive appoints to the SES, and then, secondly, to recruit from the private sector.

Retention Allowance Carryover

Under current OPM regulations, a number of Senior Executives who are so valuable to their agencies that they have been granted retention allowances frequently may not receive all of the allowance because of the statutory cap on aggregate pay in a calendar year. This will occur if, as is highly possible, the very valuable executive is also granted a bonus or Presidential Rank award.

While the law and regulations provide that any amount of a bonus, rank award or other compensation that exceeds the aggregate SES pay cap (Executive Level I) shall be carried over and given as a lump sum at the beginning of the next calendar year, they provide to the contrary for retention allowances. Excess amounts of the retention allowance cannot be rolled over to the following year. Instead, the agency must first, once additional compensation is authorized, project the total compensation the executive is scheduled to receive by the end of the year. The agency must then adjust the amount of the retention allowance downward to the extent necessary to prevent any excess (above the Executive Level I pay cap) being received by the end of the year.

By statute and regulation, a retention allowance may be given only when two qualifications are met: (1) the employee possesses unusually high or unique qualifications, or the agency has special need for the employee's service, that makes it essential the agency retain the employee, and (2) the agency determines that without the allowance the employee would be likely to leave the Federal government. Because the Executive Schedule has been frozen for five of the last nine years, and because the Executive Schedule has never received locality pay, the Executive Schedule is artificially low, and more and more amounts of retention allowances that agencies wish to grant to their best executives cannot, in fact, be received.

Retention allowances are the only forms of compensation that may not be rolled over and paid the next year. Recruitment bonuses, for example, are treated like Rank awards or ordinary bonuses and may be rolled over. This is the result of OPM regulations at 5 CFR §530.203 (c) and 575.307 (a) which implement 5 U.S.C. § 5754 and do not permit the rollover of retention bonuses.

We propose repeal of the prohibition against rolling over SES retention bonuses from one year to the next when the compensation cap is exceeded and recommend that Section 5754 of Title 5 be amended to clarify that retention bonus amounts will not be lost in rollover years and may be recovered by the executive or the executive's estate.

Applicability of One Year No Contact Rule to Career SES

One of the difficulties with S. 768 is that currently 18 U.S.C. §207 imposes a one-year post-employment no contact rule that applies to those paid at the ES-5 and higher rank. The elimination of SES ranks or pay levels and the imposition of one pay band (as in the current version of the bill) or three pay bands (as SEA proposes) will require reform of this ethics requirement.

Section 207 of Title 10, United States Code, contains a number of post employment restrictions applicable to federal employees who depart their federal employment, including the the one-year no contact rule which prohibits certain communication with or appearances at the executive's old agency for one year after leaving employment. This rule was originally intended to cover executives with the rank of ES-5 or higher. However, it is written in the context of pay at the ES-5 or higher level, and with the onset of pay compression, many executives are now covered by the restriction who were not originally intended to be covered. Also, because of the serious pay compression problem, the distinction of imposing the restriction at the ES-5 level has become meaningless.

We recommend amending 18 U.S.C. §207 to provide that the one-year no contact rule apply only to Senior Executives who are in the third band, assuming the bill is amended consistent with SEA's proposal. In the alternative, or in the event only one broad pay band is adopted, we propose amending 18 U.S.C. §207 to eliminate the applicability of the one-year no contact rule to career Senior Executives.

Demonstration Projects

S. 129 has a provision containing sweeping reform of the current demonstration project statute. The new provision would eliminate restrictions on the size and number of projects and would reduce the role of OPM in approving and monitoring these projects.

SEA opposes such broad authority to circumvent current statutory provisions and supports reasonable restrictions on the use of demonstration projects so that deviation from the law that is the centerpiece of any demonstration project remains the exception rather than the rule.

* * * * * * * *

Over the next several months we hope to work with the Subcommittees and the Administration in particular to implement the amendments to S. 768 we have discussed above. SEA surveyed its members about the Administration's proposal, and we provide the Subcommittees with a compilation of those comments (see Attachment II). We believe these observations from the Federal government's highest ranking career employees support an end to pay compression, but also express substantial concerns with regard to the Administration's proposal, concerns which can be addressed with the reasonable changes we recommend.

We also hope to work with the Subcommittees for full consideration of our other proposals which we believe will enhance the effective operation of government and provide needed reform to the career Senior Executive Service.

Attachment I

2003 LOCALITY RATES OF PAY FOR MEMBERS OF THE SENIOR EXECUTIVE SERVICE
EFFECTIVE JANUARY 2003

SALARY TABLE 2003-ES (LOC)

LOCALITY PAY AREA	ES-1	ES-2	ES-3	ES-4	ES-5	ES-6
Atlanta, GA	$ 127,847	$ 133,883	$ 139,919	$ 142,500 *	$ 142,500 *	$ 142,500 *
Boston-Worcester-Lawrence, MA-NH-ME-CT-RI	132,309	138,555	142,500 *	142,500 *	142,500 *	142,500 *
Chicago-Gary-Kenosha, IL-IN-WI	133,486	139,788	142,500 *	142,500 *	142,500 *	142,500 *
Cincinnati-Hamilton, OH-KY-IN	130,585	136,750	142,500 *	142,500 *	142,500 *	142,500 *
Cleveland-Akron, OH	128,534	134,603	140,671	142,500 *	142,500 *	142,500 *
Columbus, OH	128,966	135,054	141,143	142,500 *	142,500 *	142,500 *
Dallas-Fort Worth, TX	129,199	135,298	141,398	142,500 *	142,500 *	142,500 *
Dayton-Springfield, OH	127,707	133,736	139,766	142,500 *	142,500 *	142,500 *
Denver-Boulder-Greeley, CO	132,041	138,275	142,500 *	142,500 *	142,500 *	142,500 *
Detroit-Ann Arbor-Flint, MI	133,637	139,946	142,500 *	142,500 *	142,500 *	142,500 *
Hartford, CT	132,938	139,214	142,500 *	142,500 *	142,500 *	142,500 *
Houston-Galveston-Brazoria, TX	138,181	142,500 *	142,500 *	142,500 *	142,500 *	142,500 *
Huntsville, AL	127,078	133,078	139,077	142,500 *	142,500 *	142,500 *
Indianapolis, IN	126,810	132,797	138,784	142,500 *	142,500 *	142,500 *
Kansas City, MO-KS	127,311	133,322	139,332	142,500 *	142,500 *	142,500 *
Los Angeles-Riverside-Orange County, CA	135,198	141,581	142,500 *	142,500 *	142,500 *	142,500 *
Miami-Fort Lauderdale, FL	131,004	137,189	142,500 *	142,500 *	142,500 *	142,500 *
Milwaukee-Racine, WI	128,208	134,261	140,314	142,500 *	142,500 *	142,500 *
Minneapolis-St. Paul, MN-WI	129,967	136,103	142,239	142,500 *	142,500 *	142,500 *
New York-N. New Jersey-Long Island, NY-NJ-CT-PA	134,243	140,581	142,500 *	142,500 *	142,500 *	142,500 *
Orlando, FL	126,601	132,577	138,554	142,500 *	142,500 *	142,500 *
Philadelphia-Wilmington-Atlantic City, PA-NJ-DE-MD	130,608	136,774	142,500 *	142,500 *	142,500 *	142,500 *
Pittsburgh, PA	127,591	133,614	139,638	142,500 *	142,500 *	142,500 *
Portland-Salem, OR-WA	130,061	136,201	142,341	142,500 *	142,500 *	142,500 *
Richmond-Petersburg, VA	127,766	133,797	139,829	142,500 *	142,500 *	142,500 *
Sacramento-Yolo, CA	130,468	136,628	142,500 *	142,500 *	142,500 *	142,500 *
St. Louis, MO-IL	126,962	132,956	138,950	142,500 *	142,500 *	142,500 *
San Diego, CA	131,296	137,494	142,500 *	142,500 *	142,500 *	142,500 *
San Francisco-Oakland-San Jose, CA	138,682	142,500 *	142,500 *	142,500 *	142,500 *	142,500 *
Seattle-Tacoma-Bremerton, WA	130,212	136,359	142,500 *	142,500 *	142,500 *	142,500 *
Washington-Baltimore, DC-MD-VA-WV	129,874	136,006	142,137	142,500 *	142,500 *	142,500 *
Rest of U.S	126,566	132,541	138,516	142,500 *	142,500 *	142,500 *

* Rate limited to the rate for level III of the Executive Schedule (5 U.S.C. 5304(g)(2)).

NOTE: Law enforcement officers in the Boston and New York CMSAs are entitled to the rates on salary table 2003-ES (LEO). Locality rates of pay are basic pay only for certain purposes--see "2003 Salary Tables for Members of the Senior Executive Service, Employees in Senior-Level and Scientific or Professional Positions, Administrative Law Judges, and Members of Boards of Contract Appeals" cover sheet.

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Attachment II

SENIOR EXECUTIVES ASSOCIATION
MEMBER SURVEY
REGARDING THE ADMINISTRATION'S
2004 BUDGET PROPOSAL FOR EXECUTIVE PAY

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I. Unanswered Questions

A. Would there be minimum and/or maximum amount by which pay could be increased or decreased?

1. … A limit on the dollar decrease in salary for alleged poor performance per rating cycle would be an appropriate safeguard.

2. It might be useful **to consider not only the maximum that pay may be decreased at any one time, but also to define a path so that significant reductions can only take place over an extended period.**

B. Would the current regulations requiring written notice for pay decreases remain in place?

1. Currently, a reduction in SES grade is a rare act, and must be justified by substantial appraisal documentation. Most SES jobs are pegged at one or two SES levels and there is some security in the absence of substantial pay flexibility. **That security will evaporate if there is no burden to be met in order to reduce compensation**, and the floor in that eventuality is unacceptably low.… Under the new proposal, if you cannot justify removal, because performance is clearly satisfactory, the Agency can reduce pay. Budgetary concerns, or other problems related to political concerns, could easily result in a substantial salary reduction. Moreover, **SES applicants should know what they can expect to earn, rather than accept an initial salary that may change substantially. An SES promotion should not resemble a lottery ticket, and you take your chances after the first year.**

2. … Decreases in pay should require written documentation. A safeguard here would be to have any decrease reviewed and approved by an ERB [sic: PRB?].

C. Would bonuses, in addition to pay adjustments, also be granted for high performance?

1. … why can't pay for performance be measured by bonuses instead of base pay? Fewer but substantially bigger bonuses should produce the same results the Administration seeks without the problems inherent in their current proposal

2. I'm in favor of retaining both bonuses (one-time) and salary adjustments. This too should be at the Agency's discretion.

D. How will this proposal affect SES-equivalent executives, such as Boards of Contract Appeals Judges?

(1) BCAJ

1. As a board of contract appeals judge who was directly involved in the negotiation and establishment of the "CA" pay system, I hope we will not be left behind. Our system was designed to take into consideration the **inappropriateness of bonuses for judges**....As you know, chairmen are CA I (exec. level 4), vice chairmen are CA II (97% of exec. level 4) and judges are CA III (94% of exec. level 4**). If that changes to the above percentages of exec. level III, I think most BCA judges would be happy**.

2. **In my view, the CDA should be amended to tie BCA Judges' salaries to Level III of the Executive Schedule in lieu of the present Level IV, with the overall cap at Level II of the Executive Schedule in lieu of the present Level III cap**. This proposal should ensure that BCA Judges' salaries are on par with the proposed new SES pay structure. Thank you for the opportunity to comment.

3. The CDA should be amended to **tie the BCA Judges salaries to level III of the executive schedule (in place of level IV in the existing legislation) with an overall cap at level II of the executive schedule (in place of the current level III).** Such a change will assure that the BCA Judges salaries keep pace with the SES salaries as proposed by the administration.

(2) SLs and STs

(No comments received.)

(3) FAA

1. In the FAA, pay disparity for SES is a bigger problem than anything else especially in the Air Traffic organization. Currently my deputy makes $21,000 a year more than I do. I'm an SES ; he's not. This year he received a 5.8% pay raise and I received 3.1%. The gap widens**. I'm not sure that this proposal matters to FAA SES'ers since DOT and FAA appear to be able to do whatever they want.** We've not received promised bonuses in two years and are not eligible for Presidential awards. I guess all of the above is to ask **how do the proposed rules apply to FAA?????**

2. Pay for performance is desirable, but being an executive at FAA leaves the advantages of that in doubt. We have been asked to commit to higher performance standards here, but **the payoffs don't materialize if we reach our stretch goals and successfully support strategic initiatives. Given my choice, I would relinquish my executive status and drop down to the L band, if I could do so at my current pay and keep my current position**. I intend to explore this possibility. I believe I have more pay, retirement, and credit time advantages as

a non-executive in FAA than I have currently. Thanks for all your hard work. The Association does a great job.

3. ... **taking away the "annual" increase and making it more of a "reward/bonus" approach has had the downside in FAA of holding it (in a similar current issue) hostage to budget reductions**. I know they talked about a government wide set-aside to fund this (I am still unclear on how that would work) - but those of us in FAA have already experienced the perception in tight budget times that even a performance based award system has the appearance of being "too much to fund" - even while employee annual increases and employee awards remain funded. I also think **there should be some grandfathering clause on existing pay** if they transition into this approach.

(4) ALJs

1. Some of my judges were told by OPM representatives at an ALJ summit on capitol hill this week that the new pay bands will apply to AlJs, i.e, the proposed $102,000 to $154,700 figures. However, I am concerned about the fact that ALJs ... are exempt from the performance appraisal system established by Title 5, USC Sec 4301 (2)(D). There are currently no performance standards of any kind for ALJs. Perhaps there should be some. **Do you have any idea how the proposal could be applied to ALJs?**

II. Core principles set forth by SEA Board

A. Setting a cap high enough to enable receipt of the full locality pay adjustment

1. Several executives in Hawaii, Alaska, etc. asked that a provision be added to SEA's agenda proposing that overseas COLA's be included in high-three retirement calculations, as are locality payments for others.]

2. Any SES pay for performance plan must take into account the fact that federal **salaries are much less competitive in many urban areas than in other parts of the country**. Executives who work in these areas receive disproportionately less pay (the pay comparability act never was fully implemented) and generally have a much weaker and inexperienced workforce. To compare the performance of executives who manage these offices with others in lower cost areas is unfair and will make it even more difficult to attract executives for the toughest assignments in government. Hence**, any pay for performance plan has to take these inherent difficulties into account when paying senior executives.**

3. **The locality pay issue should be exempt from a salary cap**. Our senior executives working in San Francisco make the same as the senior executives in Vicksburg, Mississippi. ...this is grossly unfair.

B. Requiring that any basic cost of living adjustment received by GS employees be received by executives

1. "Cost of living is cost of living …"

2. **Suggests holding COLAs in abeyance until cap is raised.**

3. … the absence of a provision for annual raises, based upon cost of living, creates another nonappealable avenue for political other irrelevant considerations to result in a pay freeze, perhaps for many years, which quickly, because of inflation, **becomes a de facto pay cut**. Employees at the GS 1-15 level are virtually assured of annual pay increases, more or less pegged to inflation, (mostly less) and SES members who perform satisfactorily should be entitled to no less assurance.

4. …**It is bad enough that in many years GS employees receive wage increases in greater percentages than those received by SES'ers. To deprive SES of any regular wage increases is an insult**.

5. **Why have to give up COLAs to enter SES**?

Contra

1. I'm not sure we have to insist that every year SES'ers must as a minimum receive the same COLA as the GS ranks.

C. Prohibiting forced distributions (quotas) of executives' performance ratings by agencies

1. My basic reaction to your email below is one of great concern. Already **at Interior, there is a 45% cap on the proportion of SESers who can be nominated for and receive awards.**

2. It is certainly possible, and perhaps even likely that a very substantial number of SES members, each performing in their respective areas of responsibility, are all performing very commendably or outstandingly. If an Agency has, for example, 10 law offices or litigation centers, each headed by an SES attorney, and they are all successful in winning 95 percent or more of their cases, **why is in necessary to curve their performance.** It should only happen again next year!. And the same can be said of other areas of responsibility led by other SESers. **We should rejoice in the success of SES members rather than find ways to make irrelevant distinctions**. Stated otherwise, I am not comfortable being rated outstanding if I know that my colleagues, who have performed very similarly, given their challenges, are rated lower in order to justify an OPM requirement. The proposal will force Agency evaluators to make teensy weensy distinctions among very similar performers in order to present a satisfactory grid. **Admittedly, there are distinctions among performers, and that should be recognized at the upper end by rank awards and on the lower end by**

lower appraisal ratings, but the vast middle are performing very well and should be recognized rather than penalized for it.

3. … the proposal could have extremely divisive consequences. For example, in my Agency, there are well defined goals in each SES performance plan that are used to measure and rate our individual performances. They're not easy goals. What if, as one would presume is desirable from a public service point of view, most of us meet the goals and thereby effectuate public policy? Does than mean that the system does not make "meaningful distinctions"? If the system does not make "meaningful distinctions" because most executives are good at what they do, does this mean minimal or no pay raises**? Does someone have to fail so than someone else can get a pay raise?**

4. The "meaningful distinctions" standard, to be judged by OPM alone, can act only to deprive deserving executives of pay raises or recognition. Few, if any, SES'ers obtain their positions unless they truly are the cream of the crop. This provision alone is reason to reject OPM's proposal out of hand.

5. The proposal can only be read (particularly the aspect of the appraisal system needing to be "certified") to mean that there will be forced lower ratings (quotas) and that would result in gross unfairness to the many who perform at the highest levels of performance but who would not get the commensurate pay. Clearly the proposal would force those persons to unfairly get lower pay. As a result**, including language in the proposal that the Agency would have "total flexibility" appears disingenuous when in the full context, the Agencies would have to force varied ratings regardless of real performance in order to be certified.** Undoubtedly that would result in forced pay scale determinations.

D. Providing appeal rights to Performance Review Boards for executives denied an annual pay adjustment

1. One potential system for preventing abuse, which I agree could be a problem, is to require reviews by the Executive Resources Board (ERB). [sic: PRBs?] I've lost touch with the requirements for ERBs, but the composition might be regulated.

2. At the Railway Retirement Board, **political appointees don't pay any attention to PRB recommendations.**

3. **Should be reviewed by outside board.** (Also 186)

4. …to a "board." A single manager should not have sole authority.

Contra

1. Leave PRB appeals off the table.

E. Defining the bottom of the pay band to prevent any overlap with GS-15

Note: Virtually every executive responding made this point.

1. I cannot understand the rationale for pegging the bottom of the SES scale to a little more than the beginning of the GS-15 pay range, except to provide an avenue to reduce SES members in order to force them to resign by paying them less than their GS 15 subordinates. Most SES members entered the service from at least the middle of the GS-15 pay range, and probably higher, so the new floor would constitute a substantial pay cut for any SES member reduced to that level.

2. … Under no circumstances should the LOWEST level of SES pay be less than $10,000 greater than the HIGHEST level of GS-15 pay. The idea of any SES executive earning less than a GS-15 is unacceptable.

3. Your position about keeping a distinction between pay for the top of the GS-15 level and entry level SES is also good, …

F. Determining whether establishing pay bands within the SES rank system might not accomplish the same objective

1. Go with 5 or 10-year renewable contracts. If there will be pay bands, these should be set government-wide, so stingy CEOs couldn't make his mark by showing his "toughness."

[See also **VIII**, below]

III. Likes SEA's Approach. No Further Comments

Of the 186 comments received, many express agreement with the questions raised by SEA and the Board, with little or no further comment. Almost all thanked SEA profusely for continuing to look after their interests.

IV. Likes Administration's Proposals

1. …"While it's not the greatest approach, **it's the only one that has a possibility of approval.…"**

2. [W-P A.F.] says "I think this sounds like a pretty good proposal."

3. [Corp. for National & Community Service] I support this new direction for pay for senior executives. Six 'levels' of senior management simply don't make a lot of sense. **Agencies need more authority to manage, and this is one vehicle for doing it.**

4. [Ag – Reg. Forester] …thanks for the heads-up and request for feedback on the Administration's new pay proposal for SES'ers. **I strongly support it and urge our association to be as cooperative as we can** be with the Administration and do everything we can to quickly get it enacted. I was troubled to see us so confrontational with the Administration over the Dept of Homeland Security personnel issues. I disagreed with our stand on that one.

   On this **proposal I encourage you to graciously acknowledge thanks to the Administration for finally moving forward positively to address executive pay compression, work proactively and quickly with them to finalize their proposals, and then help support the congressional sponsors**.. I strongly support pay for performance and making meaningful distinctions between SES performance. Departments and agencies which refuse to make meaningful distinctions between SES performance should not be supported. Your position about keeping a distinction between pay for the top of the GS-15 level and entry level SES is also good, although I'm not sure we have to insist that every year SESers must as a minimum receive the same COLA as the GS ranks.

   So in summary, do everything you can to make this happen quickly, **don't pick fights with the Administration**, and continue to do the good job that you are in keeping us informed. Resolution of the pay compression problem and the recognition we need significant extra financial help with locality pay in high-cost locations like the San Francisco area where I work, are the primary drivers in keeping me serving our government. I am retirement eligible, but have no interest in quitting working. The pay compression problem was weighing heavily on me.

5. Though agreeing with most of the issues raised in CAB's e-mail, suggests "**I would be careful about fighting it too hard**. …On the positive side it would eliminate the rank vs. position problem, … would also get the pay cap up, which is something I did not think I would work long enough to see."

6. **Must be basically supportive to remain a player** ... while raising only those few, key issues that are important to members.

7. Though agreeing that the e-mail "asks some very good questions," "am generally not opposed to the Administration's proposal …"

8. [OMB] I believe **this is the best shot we have at lifting the cap** and the SEA should endorse the Pay Proposal.

   More significantly, **the image and reputation of the Federal workforce will not be improved until pay is more closely tied to performance** and pay banding is an integral part

of that. Pay banding is also desirable to enable us as managers to manage our workforces better. We should embrace it for ourselves as well.

The exact rules and conditions for implementation are important **but we should avoid getting into** protracted negotiations over every detail as this makes us look more like a labor union and is precisely the kind of problem that plagues agency relationships with Federal employee unions. We should be supportive of efforts to give management greater flexibility. In return, we can rightly justify higher pay. **Opposition to forced distributions of performance ratings contributes to the "management versus labor" image. In any event, requirements for such forced distributions are unlikely once a true pay for performance system is in place.**

9. (Assuming bonus money will not be folded into the new pay band) … I have no objection to the concept outlined below.

V. Not Enough Information to Assess

Several responders said they did not have enough information to assess the situation.

VI. Possible Politicization of the Rating Process

1. Having worked as a career SES in several agencies for the past 22 years and witnessed the games that some politicals play with the SES, **I would insist upon sufficient safeguards.** For example, agency head A wants to free up some SES slots for his or her "supporters" by encouraging current career SES staff to retire. An arbitrary salary cut of lets say $20,000 per year in salary for alleged poor performance, impacting the person's high-3 retirement annuity calculation, would drive many retirement-eligible SES out the door.

2. I see this as another trap. **I have not had an assignment since January 2002**, which lasted until April 1st. Since then my shop was abolished, my S&E budget taken away and I am awaiting reassignment to be a senior advisor to a division director, with no supervisory or money management authority. I received a pass rating in June. **Nothing since in the way of work. I am a Charter member SES 6 with three presidential rank awards since 1981. You cannot receive a performance award when there is nothing to perform.** What protection do those of us have, who served whomever was in charge over the years, to continue to serve with dignity and integrity? It makes one suspicious of intent, I don't want anything done for me, but it does provide **an example of how the lowering or raising of an executive's pay becomes a political ploy**.

3. Many SES people have their performance evaluated by political appointees. This proposal by the Administration **seems to present a new way for such appointees to downgrade,** and ultimately force out, people whose political loyalty is questioned. It might be useful to consider not only the maximum that pay may be decreased at any one time, but also to define a path so that significant reductions can only take place over an extended period.

4. … **allowing such flexibility over the pay range allows politicals a much greater leverage over SESers by allow pay increases to be potentially more greatly influenced by political considerations**. Why is this important? The current administration has taken many folks who became SESers under the Clinton Administration, myself included, and **dumped us into dead end positions, no staff, no responsibilities even remotely approaching our previous positions. Under these circumstances, many of us have no chance at all to succeed under such a new pay regime and all the talent and experience we represent, … are now at risk**. In the most strenuous way, I strongly, strongly urge you to look into this abusive situation and to consider that this pay plan may just be another method the current administration will use to weed out "incorrectly thinking" individuals from the past administration. Please consider this point in any position you take on pay regimen changes for SESers. **There are a lot of us that have been unfairly treated and this new pay scheme may just be a case of the screwing we get for the screwing we just got.**

5. I'm reminded of the late Claude Pepper's comments about proposals to reform Social Security: **"When your boss calls you into his office and tells you he's going to 'reform' your salary, do you think you're getting a raise?"** I've worked directly for a large number (and variety) of **political appointees, more than a few of whom responded to career executives on a purely visceral level. If they liked you, your errors were a reflection of desirable risk-taking. If they didn't like you your less than total successes were a reflection of your lack of initiative.** In other words, I find pay compression under the current system to be more desirable than **a wild card system**, which is what the proposal looks like to me.

6. **Having the agency set the basic pay would always be "political" whether stated or not.** Those on the "right side" or politically connected will be the ones to benefit and those on the "other side" (depending on what party is running the Administration) will not benefit regardless of performance.

7. **none of the four politicals that I have reported to in the last six years have had any relevant industry or even management experience** required for the job, while my entry into the SES ranks, even with over 20 years of industry management experience, required 7 interviews and a lengthy 14 page essay outlining my qualifications for certification.

8. … a politicization of the SES appraisal process, or its distortion, will do far more harm than the increased compensation will do good…. A related issue concerns the identity of the performance rater and reviewer, who have been, up until now, career SES members. Although I do not trust every SES careerist, just because they have that status, the system has worked fairly well. I would want to be sure that the appraisal power does not shift to political appointees or their appointees. The power to appraise is the power to destroy, or to at least inflict substantial harm. We should oppose any delegation or transfer of the appraisal power to the political arena, for the good of the SES and the nation. [A number of NLRB Regional Directors expressed their agreement with all of these comments (See, e.g., 77)

9. ...**Giving agency heads -- political appointees -- authority to set basic pay is a dangerous step away from the fundamental concept of SES -- having a core group of unbiased, non-partisan career executives.**

10. I know human nature and have many years of experience in this political system and know that such expectations, clearly laid out, are an exception and not the rule. My fear is that **this new approach would reward those who blow with the political winds** regardless of what is in the best interests of the people of the U.S. and punish those who might disagree or object to ill-considered decisions.

Contra

1. I support pay for performance. We already have it in OSD via the SES bonus process. Although subject to review by a career performance board, **OSD political appointees pretty much decide** which SES members get bonuses and how much of a bonus they get. As far as I can tell, **this system has been fairly implemented over the years and the bonuses reflect merit and pay for performance.**

VII. Pay for Performance is a Slippery Slope

1. The statement that the agencies have total flexibility sounds like we've regressed to the 'spoils' system!!! It will be interesting as to what is actually presented as an acceptable performance system that makes "distinctions" among ratings. I read the GAO report on this and it had an example of stratifying bonuses – it was rather flaky and still involved a **great deal of subjectivity, arbitrary boundaries and 'point' assigning – it appears objective, but it's a facade.**

2. Regarding "pay for performance," I concur as long as standards for excellence can be defined in definitive terms and those benchmarks can be a part of the evaluation/measurement process. **Caution must be exercised to ensure expectations can be accommodated in a public sector environment**. While some may be quick to say federal agencies must become more business-like in achieving efficiencies, and I agree, I also offer **that public sector leaders and managers are much more constrained in their ability to operate with the same degree of latitude exercised by private sector entrepreneurs.** Accordingly, a pay for performance ethos must be complemented with modifications in operational procedures that permit an entrepreneurial spirit to prevail. Establishing the former without the latter ends the race before it begins.

3. With regard to basing increases on performance, the sound of the concept is nice, however, the demon is in the details, which I believe explains why **this scorecard approach is unheard of in private industry. Without even a revenue basis to depend on, the public sector searches aimlessly for a performance indicator. It is very hard, if not impossible, to construct reliable, sufficiently concrete and objectively measurable performance measures for executives, whose work is abstract, complex, and multi-factoral. In addition, particularly in public service, accomplishments are dependent largely on**

external forces, such as appropriations, abrupt changes in political leadership and agendas, and socioeconomic conditions. The SES corps is the first cadre of employees to come under scrutiny every time there is a change in Administrations, and to that end, we serve as the buffer for the GS employees from political manipulation. We know that, as laudable as "mobility" sounds, that is one strong mechanism for political leadership to use in order to remove incumbents and put in place either cronies or toadies. If we add "pay" to that toolbox, the picture will be bleak indeed for our most accomplished civil servants, as demonstrated over time, the SES corps. The fact remains that in order for a civil servant to achieve career SES status, he or she must have risen through the ranks over many years, and likely, across parties. The person must have demonstrated a strong work ethic and many achievements over many years, across supervisors, across programs, and usually across party lines. **To have basic SES pay affected now by performance measures that would be inherently highly subjective and vulnerable to manipulation would be devastating to career professionals** who, by and large, have as their overriding interest not partisanship, but good government. I am highly suspect of this proposal as summarized below, and I am pessimistic about the end result. **With the pay compression that has occurred over the years, Levels 1 through VI are effectively already just one pay band. Widening the "band" by a mere $12k at the top end, as the proposal indicates, is very revealing of little interest in basing salaries on performance.** By measure of central tendency alone, salaries of "average" high achievers would start to drop immediately, and the very best performers, could only look forward to an after tax increase of $8k at most.

4. While pay-for-performance is an admirable concept, making it reality can be a challenge. The key is a objective set of relative measures. The USPTO has a great set of performance measures for certain executives (those in the Patent organization), others have less rigorous measures (those in some of the support organizations). Without some level objective measures, evaluations become too subjective to qualify as true "pay-for-performance".

5. … In VA I've seen quite a few performance measures not fully developed yet put into place. I've also seen perf. measures dropped out and dropped in mid way through cycles causing some confusion. I'm **also concerned lest so many measures are put into place that achievement across the board becomes impossible**.

6. A great deal of **subjectivity**

7. Problem is coming up with measures that are usable and appropriate.

8. Pay for performance is an illusive concept… Need prior agreement on performance appraisal system.

9. Most organizations have no real cost accounting functionality to accurately measure performance.

10. **Scorecard approach is unheard of in private industry.**

Contra

1. I strongly support pay for performance and making meaningful distinctions between SES performance. Departments and agencies which refuse to make meaningful distinctions between SES performance should not be supported.

VIII. Keep SES Ranks

1. **Abandoning all SES ranks is nonsensical. The level of responsibility of the director of my agency, NOAA Fisheries, is certainly an order of magnitude greater than my own as one of his field directors**. That this difference in scope and magnitude of responsibilities exists ought to be recognized in an SES performance-based system. It certainly was in the general workforce system that NOAA adopted which collapsed the 15 GS levels into 4 bands. **An SES performance-based system might reasonably be collapsed into 2 or 3 bands, but not one**.

2. SES ranks would be abolished, and a pay range established in its place**. Ranks don't seem to make much financial difference now, so I suspect this is something we could 'give up' if we get something in return.** The only problem is compensation for SESers will be solely monetary. There is something in Maslo's hierarchy that says things like **prestige, ego, etc.. become very meaningful once the pay is adequate**. I suspect one of the things that keeps the ES-5 and ES-6's going (since we all get the same pay) is the **psychic award of rank. I would not give it up without some way to provide non monetary recognition for those in the very difficult and most senior levels**.

3. I have no problem with pay banding, particularly within the "band" of ES-1 thru ES-4. Combine them if you want. However, I believe that there is great meaning in **retaining ES-5 and ES-6 as distinct "grades."** Pay band within them if you want, but these "grades," particularly within the career service, are important. I won't waste your time with all of the arguments I am sure you are familiar with, but I believe **the "grade" system of the SES has caused many of the senior political appointees to have second thoughts about appointing/promoting their non career folks to the highest pay levels**. I **don't hear of any move to eliminate the "grade" structure of the military.** Some years ago China did away with its "structure" by having every officer wear the same uniform. As I recall, it didn't work out very well.

4. The FBI has a very limited performance appraisal system. In fact, it's abysmal. There are only 3 rating levels: Fully Successful; Minimally Satisfactory; and, Unsatisfactory. Virtually everyone is Fully Successful. It will take years for the FBI to reconfigure its performance appraisal system**. How about a compromise position, say, the agency could use the new pay levels, but retain the existing 6 SES Levels for not more than 3 years. At the end of the three years, they had to have a new performance plan in place and be conducting meaningful appraisals.**

5. Establishing a payband alone won't work. Even tying movement to performance won't necessarily work. As long as agencies can use other factors such as protocol code, some semi-classification system, or organizational alignment, agencies will simply administratively institutionalize the current set up. See what OSD did to the ST/SL pay band for example. **OSD policy mirrors the SES policy including quota-controlling the pay equivalent to ES-5 and ES-6**. Look at how Army actually controlled ES-5 and ES-6's. So much for person-in-the-job concept of SES. OSD and the Services continued to quota-control them even though the OPM guidance on distributing pay levels had been cancelled years ago. While I was at AMC, we proposed that in lieu of quotas, the top pay levels (ES-5 and ES-6 which were quota-controlled for career execs) be automatically received by those awarded Presidential Rank Awards, ES-5 for Meritorious, ES-6 for Distinguished. **SES's in HQ positions wanted most of the ES-5 and ES-6 quotas tied to their positions, irrespective of performance record. They felt it was necessary in order to attract individuals to their jobs**.

6. Second, eliminating the ES pay ranges seems to mean de facto that every job is the SES is potentially as important as any other job. Does SEA agree with that? Clearly, **some SES positions have more authority and responsibility than others.**

7. All senior execs are not equal in terms of responsibility, duties, authority, or comparative market worth. The ES steps should be retained. (Also (181: Performance is just one factor. **Level of responsibility and authority play a part in the pay level of any other position in Federal government**. Pay levels within bands will become de facto pay [ranks.]

8. … what is the purpose of abolishing ranks? Currently a lower rank SES can be promoted to a higher rank with a little effort on the part of the ranking officer, **so ranks constitute a means of establishing a distribution**. With no ranks an agency, or more likely a subunit within an agency, could happily assign the top salary to all members of the unit and thereby do away with the troublesome business of trying to fairly assess relative performance. The idea of no ranks is on the face of it good, but as a basis for improving evaluation it is not likely to be successful when the ranking officer is either lazy or embarrassed to pass judgment on junior colleagues. Some element of competition between individuals is often helpful.

Contra

1. I support this new direction for pay for senior executives. Six 'levels' of senior management simply don't make a lot of sense. Agencies need more authority to manage, and this is one vehicle for doing it. [There are many more important ones, but that is another subject.]

IX. Insufficient Funding will be a Problem Under Pay for Performance

1. Present plan just underfunded.

2. Fourth, I am concerned **that if Agencies have "total flexibility to set basic pay,, pay rates would inevitably be influenced by budgetary considerations** i.e. insufficient funds to fund appropriate raises.

3. Budgetary concerns, or other problems related to political concerns, could easily result in a substantial salary reduction.

4. … those of us in FAA have already experienced the perception in tight budget times that even a performance based award system has the appearance of being "too much to fund" - even while employee annual increases and employee awards remain funded.

X. Expressions of Outrage

1. Since other agencies have been given authority to pay SES up to $175,000, and the military can now have their retired pay excluded and get full SES pay, their proposal is blatantly unfair to us now, and for the work we have and are doing. Being from the private sector has little meaning to me other than they these "seemingly" great performers do not know what they need to know to start performing their jobs, yet they get more money because they haven't learned our profession, nor have the requisite knowledge of public service!! **Who's trying to fool whom?**

2. There are a lot of us that have been unfairly treated **and this new pay scheme may just be a case of the screwing we get for the screwing we just got**.

3. **I think this package is pathetic**. It offers tiny relief at a time when major relief is indicated. This package's only up side is a slight increase in pay with a major downside of being dependent upon what a political appointee thinks you are worth. I wonder if my pay can be decreased because of some arbitrary performance measurement system. This proposal will engender major objections for a less then significant pay increase. I support the questions raised by SEA. **I would push for a larger increase and more certainty on who will get the increase and how one goes about getting such an increase.**

4. The timing seems really bad, the economy is bad with no relief in sight, the country is running a deficit that is in a growth mode, The President is about to declare war and made commitments in his state of the nation address last night to send billions to Africa to fight the aids epidemic, fund prescription drugs for seniors, beef up medicare, activate a tax break for the wealthy who have large stock dividends, continue the battle against worldwide terrorism, expand the war in Afghanistan, initiate additional tax reductions in an effort to revitalize the stock market, etc. With all of these things already on his plate, what kind of a prioriity can SEA hope to get from the President and Congress? Other than removing the pay cap, I do not like anything about the OPM proposal. From where I stand, **It looks, talks and walks like a Trojan Horse whose mission is to kill SEA.**

5. In sum, this proposal appeared to do little to resolve the financial and morale issue associated with pay compressions. **Frankly, I feel like we're being offered a used car without a warranty.**

6. **This proposal is ridiculous**, and sounds like an attempt by this Administration to "encourage" SES members to leave the government as soon as possible.

7. I have been one of your many silent members, until now. **I am, frankly, shocked that SEA would even think of responding to OPM's trial balloon** with other than outrage.... A new pay system is window dressing. What is needed, first and foremost, is raising the pay cap and decoupling it from political expediency. The latter point in particular is key -- that Congress lacks the political moxie to defend relatively modest and well-deserved pay raises should not affect senior execs. ...**In sum, SEA should immediately turn its entire resources into fighting OPM's proposal**. I, and many of my colleagues, fully expect nothing less.

8. "Let's be real. **The proposal is an Edsal** ... Fight it tooth and nail."

9. "Fight it."

10. "**Deep –six it**." SES gives up lots and gets a little.

11. "**Arrogant at best, insulting at worst ...**"

12. "Do not screw up what we have ..."

13. Pay increases in Administration program are "paltry" and "insulting." SEA should communicate to the Administration that its program is completely unacceptable to its members ... Source of future abuse.

14. "Odious and insulting attempt to demean the SES's contributions to public service."

15. "Overall, must be viewed as an effort to entice us with a carrot of a cap raise while placing us in a system that is far less advantageous for us..."

16. Just oppose it.

17. "I see the proposal as throwing to us a small bone and carrying a potentially big stick..."

18. To give potentially less than 10% in total ceiling for the 60% at the max is unacceptable with the downside salary adjustment risk ...

19. ...**I would much prefer to pass on the possibility of raising the salary cap than suffer the rest of the proposal. It simply isn't worth it!**

20. Little or nothing ... to be of net benefit to the average SES member or the SES as a whole.

XI. Miscellaneous Comments

1. Former PMRS System proved to be inadequate.

2. Is there any sign the administration intends to put some more money in the pot to **get salaries raised initially on a one-time basis for people who have been in the SES for a while**?

3. I have arrived at the following conclusion. **Reinstate "supergrades"** (16, 17, 18), treat executives at least as "fairly" as the General Schedule, and forget about the SES. If we were on the General Schedule, we would get cost of living raises when everyone else did. We could compete for performance awards the same way GS's can, and those awards would come from a Departmental pool set aside for everyone. I really believe that **the SES is a failed** experiment.

4. I wrote because I wanted to to understand how strongly I feel about the way we have been treated. In fact, one might argue that we're better off as we are than we would be under what is proposed. I thought that there was a crisis in SES staffing**. Do they really think this will keep anyone from retiring? ... what we ought to be talking about is recapturing the amount of money we lost to pay compression over the last 10 years or so** without any conditions before we talk about a new system to measure performance prospectively. In other words, raise the cap to $154,700 first. Pay compression does not exist because of executive incompetence. It exists for political reasons completely unrelated to our performance, good or bad, over the past ten years.

5. **This may also be the time to talk about including bonuses in the computation for retirement**.

6. ... I'm also not sure of the impact of this proposal on salaries for new appointments to the SES. I would opt for Agency discretion, but I would have the results reviewed on a periodic basis.

7. When I entered the SES pay compression was at its worst. Therefore, I entered as an ES-3, and was promoted to ES-4 in 1988 or 89. Since there are only 2 or 3 ES-5 positions in my organization (all in our Headquarters office in Washington), I have remained an ES-4. My performance has been regarded highly. I have received bonuses every year since 1992 and in 2002 received a Presidential Rank (Meritorious) award.

   Your message indicated that if this new system were adopted that our placement within the band would be based upon performance. While I have performed very well, because I have chosen not to move to Washington, and stayed in the hinterlands of Philadelphia my position is among the lowest of the SES positions in my organization in terms of the organizational pyramid. (Those who have reached my position in recent years have been "capped" at ES-3.) Therefore, **do you know if this proposal contemplates "pegging" salaries based SOLELY upon performance (in which case I would do fine), or whether the "importance" of the job would also be a factor (in which case I would likely not fare any better than I do now while the non-career executives who come in to our**

Washington Headquarters for several years primarily (?) to improve their resumes would reap the benefits)??

[Ed] This member Is asking whether new system would be "pay for performance" or "rank in person."]

8. **Should be time limit for OPM to certify**.

9. How will existing differences in **post-employment restrictions** be handled [if ranks are abolished]?

10. **Big agencies will get more ...Just give $154,000 to those who meet presidential rank qualifications.**

11. My overall concern is **the increased time we will have to take to document our performance**, the creation of additional performance review boards – all the non productive administrative things that will most likely occur to implement the system. Speaking for myself, I do not want to take the time to do this in lieu of meeting mission requirements.

FMA

Federal Managers Association

Testimony
Before the Senate Governmental Affairs Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia

Before the House Government Reform Subcommittee on Civil Service and Agency Organization

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For Release on Delivery
Expected at
9:30 A.M. EST
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The Human Capital Challenge: Offering Solutions and Delivering Results

Statement of
Ms. Karen Heiser
Federal Managers Association

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Chairman Voinovich and Chairwoman Davis, Ranking Member Durbin and Ranking Member Davis, and Members of the Subcommittees:

My name is Karen Heiser. On behalf of the 200,000 managers and supervisors in the Federal government whose interests are represented by the Federal Managers Association (FMA), I would like to thank you for inviting us to present our views for this joint hearing before the Senate Governmental Affairs Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia, and the House Government Reform Subcommittee on Civil Service and Agency Organization regarding the human capital challenges facing the Federal government.

I am currently the Organizational Development Manager at Watervliet Arsenal in New York, U.S. Department of the Army. My statements are my own in my capacity as a member of FMA and do not represent the official views of the Department of Defense or the Army.

Established in 1913, FMA is the largest and oldest Association of managers and supervisors in the Federal government. Our Association has representation in more than 25 Federal departments and agencies. We are a non-profit advocacy organization dedicated to promoting excellence in public service through effective management. As those who are responsible for the daily management and supervision of government programs and personnel, our members possess a wide breadth of experience and expertise that we hope will be helpful as we collectively seek to overcome the human capital crisis that our civil service has been burdened with.

This hearing comes on the heels of recently released survey results from the Office of Personnel Management (OPM)[1]. OPM sent a 100-question survey to over 208,000 Federal workers between May and August 2002, to which more than 106,000 employees responded,

[1] U.S. Office of Personnel Management: 2002 Federal Human Capital Survey, March 2003.

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representing 189 units in 24 of the largest Federal agencies. The data confirms that in addition to the impending mass exodus of Federal workers due to retirement, we are facing difficulties in the area of retention, as more than one-third of those surveyed said they were considering leaving their jobs. A little less than half of the 34.6 percent who are considering leaving said they were planning to retire within three years. In addition, 43.8 percent felt their pay was fair, poor, or very poor. The study also shows that fewer than half of all employees are satisfied with the recognition they get for doing a good job, with only 30 percent believing awards programs provide real incentives for workers to do their best. Only 27 percent said steps have been taken to deal with poor performers.

Watervliet Arsenal has struggled for over a decade with decreasing workload and downsizing of personnel. To help offset attrition and skill loss, anticipated hiring of new engineers and manufacturing apprentices will rejuvenate the nucleus of the workforce. The infusion of skills is a critical part of a successful transformation. The apprentice program at Watervliet Arsenal has always been the vehicle to recruit and develop these core skills. On behalf of FMA Chapter 19 at Pearl Harbor, I would be remiss if I did not personally thank Senator Akaka for his support over the years of Pearl Harbor Naval Shipyard, where your efforts have been instrumental in the area of workforce revitalization, enabling the shipyard to hire more than 640 new apprentices and 120 engineers over five years. Although dormant for several years as a result of declining workload, the apprentice program at Watervliet Arsenal is ready and waiting. Now is the time to revive the development of essential skills for the future through initiatives such as a reactivated apprentice program at Watervliet Arsenal, where program graduates since the 1800s have provided our critical manufacturing skills and ascended into many of our supervisory positions, from first line to the directorate level. At Watervliet Arsenal and beyond, this type of in-house training and mentoring is what our government must do more of as we continue to lose valuable expertise by way of retirements and mid-career departures.

We at FMA are greatly concerned by the Army's plan to review for privatization more than 214,000 military and civilian positions in the Department of the Army, otherwise known as

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the "Third Wave." Such transfers have the potential of seriously eroding the readiness of the total force at a time when the nation is at war.

This most ambitious outsourcing initiative is especially inappropriate in that it appears to be based on a "numerical privatization quota" without serious consideration of the potential unintended adverse consequences such transfers could induce. Agencies must have the flexibility to make the best decisions regarding the use of taxpayer dollars without being forced to comply with target percentages. In this time of increased scrutiny on the use of taxpayer dollars by the Federal government, Congress should pass legislation to provide Federal agencies and departments with the ability to use competition to support the mission of the agency and to truly benefit the American people, while not requiring competition for the sake of fulfilling quotas.

Additionally, the "Third Wave" proposal calls for a vast majority of the transfers to be accomplished without any public-private competition. The General Accounting Office's (GAO) Commercial Activities Panel – a panel of experts convened by Congress to study sourcing policy – concluded that activities currently performed by Federal employees, except in de minimis situations, should be subject to some type of competition. We at FMA hope that Congress will look into the "Third Wave" initiative to ensure that Federal functions are not converted to the private sector without the benefit of fair and accountable public-private competition.

INTRODUCTION

The inability to make public-sector employment more attractive has made it increasingly hard for the Federal government to recruit and retain the high-caliber workers it needs to sustain a strong Civil Service. Eighteen months ago, President Bush released the President's Management Agenda, which was designed to create a more citizen-centered and efficient Federal government. One area of concern in the Management Agenda is the proposed reduction of Federal managers. Each Federal agency is required to "identify how it will reduce the number of managers ... and increase the number of employees who provide services to citizens."[2] Once again, the Administration appears to be targeting the very civil servants that it relies on to

[2] The President's Management Agenda Fiscal Year 2002, released in August 2001, p. 13.

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accomplish its goals – in spite of a human capital predicament that will see many of these managers and supervisors retire in the next three years.

At the same time that we are witnessing the exodus of skilled and experienced Federal workers, the Federal government continues to have difficulty tracking the cost and performance of government work being done by contractors. In the Department of Energy, over 85 percent of the workforce is contract labor, yet we still have no system in place to track the costs of work that has been handed to the private sector. According to the *New York Times*[3], "An internal Energy Department report this year concluded that the agency's largest program, which pays contractors to clean up the waste left by the nation's nuclear weapons programs, has been fundamentally mismanaged since its founding 13 years ago, and much of the $60 billion it has spent over that time was wasted." The *NYTimes* goes on to state, "No one at the department actively supervises multibillion-dollar cleanup projects that are let out to contractors."

While previous administrations have taken credit for creating the smallest Federal government, the illusive nature of the government's less visible and less accountable "shadow workforce" of contractors makes it nearly impossible for policy makers to know if the current course of downsizing and contracting-out is in the nation's best interest. In several documented cases, contract performance of work is actually more costly than in-house performance of these government functions. FMA supports correcting several longstanding inequities in the contracting-out process:

1. TRACK COSTS: Agencies should be required to track costs and savings from contracting-out. Currently, agencies are assuming that promised savings from contractors are actually realized. According to reports done by the General Accounting Office (GAO), however, costs have been shown to increase over the course of contracts, and agencies do not have the systems in place to track costs. This information could be used to encourage contractors to perform better work or bring work back in-house when it could be performed more efficiently by Federal employees.
2. PROMOTE PUBLIC-PRIVATE COMPETITION OVER DIRECT CONVERSION: Agencies need to be prevented from contracting out work without public-private

[3] *The New York Times*, "Energy Dept. Contractors Due for More Scrutiny," Joel Brinkley, Nov. 24, 2002.

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competition. The Department of Defense has admitted that less than 1 percent of its contracts are first subjected to public-private competition, despite GAO's findings that Federal employees win 60 percent of the competitions actually conducted. Almost all of the $115 billion worth of work performed annually by contractors is acquired with no public-private competition.

3. ABOLISH ARBITRARY PERSONNEL CEILINGS: In order to compete on a level playing field with government contractors, Federal agencies need the flexibilities to hire additional Federal employees if they could perform the work more efficiently. Currently, agencies manage their Federal employees by arbitrary personnel ceilings. Even when agencies have work, as well as funds to pay for that work, they still contract it out – often at higher costs – because they can't hire the necessary Federal workers.
4. CONTRACT IN: Agencies should be required to subject work done by contractors to the same level of public-private competition as work performed by Federal employees.

Last November, the Office of Management and Budget (OMB) proposed revisions to OMB Circular A-76, which governs the public-private competition process. One key fundamental change is to now assume that all Federal activities are "commercial in nature" unless specifically justified as "inherently governmental." Not only have these terms caused confusion over the years, but yet again, Federal functions are being further scrutinized, while contractor performance remains largely ignored.

FMA believes there must be a proper mix of managers, rank-and-file employees, and contractors that will serve to best achieve each agency's mission. Arbitrary outsourcing without proper mission analysis continues to hurt the front-line supervisors' ability to manage at all, much less manage effectively.

The second National Commission on the Public Service, a.k.a, the Volcker Commission so named for Commission Chair Paul Volcker, recently issued its recommendations regarding civil service reform as part of its final report released this past January. "Clarification and consolidation of responsibility for policymaking executives, combined with greater delegation of operational functions to agency managers, should be the hallmark of progress," wrote Mr.

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Volcker in the report. The Commission goes on to recommend that,"The operating agencies in these new executive departments should be run by managers chosen for their operational skills and given the authority to develop management and personnel systems appropriate to their missions."[4]

It has been more than two years since GAO for the first time added strategic human capital management across government to its list of the Federal government's "high-risk" areas. "Importantly, although strategic human capital management remains high-risk governmentwide, federal employees are not the problem,"[5] GAO recently noted in an update on the status of Federal human capital management. "Rather, the problem is a set of policies and practices that are not strategic, and viewed by many as outdated and over-regulated. In the final analysis, modern, effective, and credible human capital strategies will be essential in order to maximize the performance and assure the accountability of the government for the benefit of the American people."

In the past two years, Congress and the Administration have made a concerted effort to explore ways in which the Federal government can correct for the arbitrary and excessive downsizing of the past and the void of workforce planning that accompanied it – which only served to exacerbate the human capital crisis upon us. Mr. Paul Light, Vice President and Director of the Governmental Studies Program at The Brookings Institution, has stated that, "the downsizing process was done through an entirely random process. We have reduced the total size of government through attrition and voluntary buyouts ... it has been haphazard, random, and there is no question that in some agencies we have hollowed out institutional memory, and we are on the cusp of a significant human capital crisis."[6]

Despite all of this downsizing, the Federal government has merely created a "shadow government" of contractors. As Mr. Light said, "It is only by the most narrow definition of workforce [full-time equivalents] that a president could say the era of big government is over."[7]

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[4] Report of the National Commission on the Public Service: "Urgent Business for America: Revitalizing the Federal Government for the 21st Century," January 2003, p. x.
[5] U.S. General Accounting Office: "High-Risk Series: Strategic Human Capital Management," GAO-03-120, Jan. 1, 2003.
[6] Oral testimony of Paul Light, Senate hearing 106-722, May 4, 2000, page 19.
[7] Oral testimony of Paul Light, Senate hearing 106-722, May 4, 2000, page 18.

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RECENT PROGRESS

As part of the legislation which created the Department of Homeland Security (DHS), several positive reforms were enacted government-wide that will help agency recruitment and retention efforts, while highlighting the critical nature of human capital planning:

- Managers are now able to use categorical ranking (consistent with merit principles) as opposed to the "Rule of Three" to pick top candidates for vacancies. Under the restrictive "Rule of Three," managers could only choose one of the top three candidates recommended by their human resources staff.
- OPM can grant direct hiring authority to agencies when they face a severe shortage of candidates or a critical hiring need.
- The 24 largest departments and agencies must create Chief Human Capital Officers, who are responsible for selecting, developing, training and managing a high-quality workforce. In addition, they will make up the Interagency Chief Human Capital Officers Council, chaired by the OPM Director, to advise and coordinate the personnel functions of each agency.
- OPM must design a set of systems, including metrics for assessing agencies' human capital management.
- Agencies will be required to incorporate workforce planning into their annual agency performance and management reports mandated by the Government Performance and Results Act (GPRA) of 1993.
- Agencies can offer voluntary separation incentive payments and voluntary early retirement, buyouts, and early-outs, for the purposes of workforce reshaping, not downsizing.
- Restrictions on providing academic degree training to Federal employees have been reduced, thereby emphasizing the importance of individual professional development.

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On behalf of FMA, I would like to thank Chairman Voinovich and Senator Akaka for their hard work in ensuring inclusion of these important provisions in the legislation creating the DHS. However, it is worth noting that the provision to provide Federal employees compensatory time off for official travel was left out of the final bill. Over the years, FMA has fought to allow Federal workers to receive compensatory time for official travel, as often times managers and supervisors are required to report to scheduled meetings which force travel on personal time. Current OPM regulations state that Federal employees cannot be compensated for credit hours unless the travel occurs during hours of work. This, however, neglects to take into consideration the increasing frequency of Federal managers being forced to travel on personal time. As the Federal government continues to face difficulties in the areas of recruitment and retention, we should allow credit hours for time traveled on personal time as a result of meetings scheduled by the agency.

Moreover, along with the direct hiring authority that was granted to agencies, we further believe Full-Time Equivalent (FTE) ceilings must be made more flexible for agencies to fill high-need positions without the burden of arbitrary FTE caps.

RECRUITMENT AND RETENTION TOOLS

"Recruitment to federal jobs is heavily burdened by ancient and illogical procedures that vastly complicate the application process and limit the hiring flexibility of individual managers,"[8] notes the Volcker Commission in its report.

Compensation is an integral piece of the human capital crisis we are presently facing. Mr. Chairman, you have introduced legislation, S. 129, that would allow managers to use a variety of compensation tools such as recruitment, relocation, and retention bonuses, and give agencies streamlined critical pay authority to fill key positions. These are sensible reforms that would begin to address the workforce problems that will only worsen with the forthcoming retirement wave.

[8] Report of the National Commission on the Public Service: "Urgent Business for America: Revitalizing the Federal Government for the 21st Century," January 2003, pp. 27-29.

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Retention bonuses do not always have to take the form of financial incentives. In exit interviews of Federal workers, other issues have been raised such as a lack of recognition and the absence of a long-term sense of purpose. It is also a widespread belief of those leaving government that insufficient opportunities exist for growth in the public sector, which brings us to the problem of proper succession planning. In a recent poll conducted by the Partnership for Public Service, when Federal employees were asked to rank the effectiveness of 20 proposals for attracting talented people to government, the most popular choice was providing more opportunities for career advancement.

Student loan repayment has long been identified as a recruitment and retention bonus that would help attract and retain high-performing employees. Federal agencies have had the authority to repay student loans since 1990, but authorizing language for implementation purposes was not published until 2001. Currently, agencies can pay up to $6,000 a year in student loan payments for each employee, but the total amount per employee cannot exceed $40,000. Also, employees who participate in the program must remain with the agency for at least three years and must pay the money back if they leave before the three years are up.

Under 5 U.S.C. 5379, agencies are authorized to establish a program under which they may agree to repay certain types of Federally-insured student loans as a recruitment or retention incentive for highly qualified personnel. Currently, however, fewer than half of the 53 agencies that report to OPM on the student loan repayment program had a plan in place, or expected to have a plan in place in the near future[9]. Three in four respondents to a recent Hart/Teeter survey considered a loan forgiveness program for college graduates who take Federal jobs an effective recruitment tool[10].

The Generating Opportunity by Forgiving Educational Debt for Service (GOFEDS) legislation, H.R. 1056 and S. 512, would increase the amount of the student loan forgiveness benefit by relieving Federal employees of the obligation to pay income tax on the money Federal agencies provide them. Thank you, Mr. Chairman, for your leadership in introducing this bill. Some agencies have begun offering repayment of student loans, though not nearly enough.

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[9] *Government Executive*, "The Loneliest Number," Brian Friel

[10] *Hart/Teeter*: "The Unanswered Call To Public Service: Americans' Attitudes Before And After September 11," September 2002.

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FMA would like to see this benefit extended to those seeking graduate degrees as an additional recruitment and retention tool. According to a recent survey of third-year law school students by the Partnership for Public Service, Equal Justice Works, and the National Association for Law Placement (NALP), law school debt prevented 66 percent of student respondents from considering a public interest or government job[11].

On top of existing recruitment and retention difficulties on a government-wide scale, OPM has reported that the number of Federal human resources (HR) professionals continues to decline. "As more seasoned professionals retired and moved on, they often were not replaced. There was limited opportunity to hire new professionals into the occupation. The net effect is a lack of expertise at a time when HR professionals are being called upon to serve in new and unfamiliar roles as consultant and business partners."[12] Thus, there are fewer and fewer HR experts in the Federal government capable of charting future human resources needs. In fact, more than one-third of the government's human resources professionals will be eligible to retire in three years.[13]

Therefore, it is imperative that we look more closely at Federal HR professionals and examine ways to increase recruitment efforts in that field. Once brought on, "human resources professionals should be integrated with agency strategic and day-to-day business management efforts; in other words, they should be more fully integrated into the hierarchy and leadership of Federal agencies." This quote from your 2000 report to the President[14], Mr. Chairman, could not be more accurate.

Often times, however, agencies do not have adequate funding for these incentives, even existing ones. Annual appropriations should include additional line items for recruitment and training. The public sector should mirror the private sector in appreciating that the most valuable organizational asset is the workforce itself and in recognizing that "you get what you pay for."

[11] *Partnership For Public Service* Web site: www.ourpublicservice.org
[12] U.S. Office of Personnel Management: "The HR Workforce: Meeting the Challenge of Change," January 2000, p. 8.
[13] Ibid
[14] Sen. George Voinovich: "Report to the President: The Human Capital Crisis," December 2000, p. 48.

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TRAINING AND DEVELOPMENT

Agencies must also be prepared to invest in their employees by offering skill training throughout their career. This prudent commitment, however, will necessitate significant technological upgrades. OPM has already developed pilot Individual Learning Account (ILA) programs. An ILA is a specified amount of resources such as dollars, hours, learning technology tools, or a combination of the three, that is established for an individual employee to use for his/her learning and development. The ILA is an excellent tool that agencies can utilize to enhance the skills and career development of their employees.

We'd also like to inform Congress of our own efforts to promote managerial development. FMA recently teamed up with Management Concepts to offer *The Federal Managers Practicum* — a targeted certificate program for Federal managers. As the official development program for FMA, *The Federal Managers Practicum* helps FMA members develop critical skills to meet new workplace demands and enhance their managerial capabilities.

American University here in Washington, DC provides value to both the individual and the Federal government by establishing a path from skills-based learning to an advanced degree. Students who complete *The Federal Managers Practicum* will be eligible to transfer 10 graduate credit hours to the American University, Schools of Public Affairs, Department of Public Administration graduate program.

FMA has long recognized the need to prepare career-minded Federal employees to manage the demands of the 21st century workplace through its establishment of The Federal Management Institute, FMA's educational arm, which sponsors valuable professional development seminars and workshops. *The Federal Managers Practicum* is a unique, integrated development program that links professional training and higher education – specifically created for the Federal career professional. Developed and taught by management experts, this comprehensive practicum integrates core program management skills including planning, analysis, budgeting, communication, evaluation, and leadership with functional skills and knowledge – providing a balance between theory and practice.

The Federal Managers Practicum consists of nine courses – organized into three steps or modules – that acclimate participants to the core topics of effective program management. The

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curriculum is anchored to the Executive Core Qualifications (ECQs) developed by OPM and Financial Management Core Competencies developed by the Joint Financial Management Improvement Program (JFMIP). We at FMA believe that the practicum will pave the way for the creation of much-needed additional development programs for Federal employees.

Clearly agency budgets should allow for the appropriate funding of the ILA as an example. However, history has shown that training dollars have been a low priority for many agency budgets. In fact, in the rare event that training funds are available, they are quickly usurped to pay for other agency "priorities." Toward this end, we at FMA support including a separate line item on training in agency budgets to allow Congress to better identify the allocation of training funds each year.

Neither the Office of Management and Budget (OMB) nor OPM collects information on agency training budgets and activities. This has only served to further diminish the minimal and almost cursory attention on training matters. Many agencies do not even have dedicated employee "training" budgets. Training funds are often dispersed through other accounts. It is no surprise that budget cuts inevitably target training funds, which is why FMA continues to advocate the establishment of a training officer position within each Federal agency. This would allow for better management and recognition of training needs and resources, in addition to placing increased emphasis on critical training concerns.

The Federal government must, once and for all, take the issue of continuous learning seriously. There needs to be a developmental component for each position that would facilitate effective succession planning.

PAY COMPARABILITY BETWEEN PUBLIC AND PRIVATE SECTORS

Compounding the myriad of problems associated with the recruitment and retention of Federal employees is the significant pay gap between the public and private sectors. According to a survey of college graduates, Federal and non-Federal employees conducted by the Partnership for Public Service[15], the Federal government is not considered an employer of choice for the majority of graduating college seniors. In the survey, nearly 90 percent said that offering

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salaries more competitive with those paid by the private sector would be an "effective" way to improve Federal recruitment. Eighty-one percent of college graduates said higher pay would be "very effective" in getting people to seek Federal employment. When Federal employees were asked to rank the effectiveness of 20 proposals for attracting talented people to government, the second-most popular choice was offering more competitive salaries (92 percent). The public sector simply has not been able to compete with private companies to secure the talents of top-notch workers because of cash-strapped agency budgets and an unwillingness to address pay comparability issues.

The Federal Employee Pay Comparability Act (FEPCA) of 1990 was intended to close the gap between Federal employee salaries and those of their private-sector counterparts. However, FEPCA has never been implemented as it was originally intended. Since this bill was enacted, administrations led by both political parties have used a capping feature designed to reduce pay increases in times of economic distress. This executive authority has been utilized despite record budget surpluses. More than a decade since the enactment of FEPCA, the Bureau of Labor Statistics shows that the pay gap between Federal civilian employees and their private-sector counterparts has grown to 33 percent. If FEPCA is never to be adhered to, we must, at a minimum, re-examine FEPCA to determine how best to bring public-sector salaries more in line with those of their private-sector counterparts. "The pay gap in hard-to-recruit positions, from engineering to acquisitions, remains a significant barrier to recruitment and retention,"[16] notes the Volcker Commission in its report. Closing the pay gap between public and private-sector salaries is critical if we are to successfully recruit and retain the "best and brightest."

PAY PARITY BETWEEN CIVILIAN AND MILITARY PERSONNEL

For the time being, however, we must uphold the longstanding principle of linking annual pay increases between Federal civilian employees and military personnel. Since 1987 – and in 19 of the last 22 years – civilian and military personnel have received the same annual raises.

[15] Survey conducted by Hart-Teeter for the Partnership for Public Service and the Council for Excellence in Government, Oct. 23, 2001, p. 1-3.
[16] Report of the National Commission on the Public Service: "Urgent Business for America: Revitalizing the Federal Government for the 21st Century," January 2003, p. 30.

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Per the direction of Congress, President Bush recently signed into law a 4.1 percent average pay raise for civilian workers this year that matches the increase for the military – despite originally proposing only a 2.6 percent pay raise for Federal civilians. Nevertheless, the Administration has just proposed a 2 percent across-the-board average pay raise for Federal employees in 2004, while military personnel are slated to receive a 4.1 percent average pay raise next year – marking the third straight year that the White House has attempted to de-link civilian and military pay increases. The 2 percent recommended pay raise also rebuffs the 2.7 percent increase mandated by the formula in FEPCA used to determine annual civil service pay raises.

In light of the well-documented human capital concerns facing our Federal government, we must maintain the tradition of providing equitable pay increases to Federal civilian employees and members of the uniformed services – all of whom are on the frontlines ensuring our nation's security each day and make significant contributions to the general welfare of the United States.

OVERTIME PAY FOR MANAGERS

There is a distinct retention problem in the Federal government. The notion of the career civil servant is becoming more and more obsolete because there are few incentives for advancement in the Federal government. When combined with better salary and benefits packages in the private sector, it is no wonder that many Federal employees are leaving the public sector after only a few years of service. In fact, there are often times disincentives for moving up the career ladder. A perfect illustration is the current statute which caps overtime pay for Federal managers and supervisors.

Between 1994 and 2001, the non-postal executive branch civilian workforce was reduced by more than 452,000 positions.[17] One of the side-effects of this downsizing is that overtime is becoming increasingly common. According to OPM, "the percentage of public-sector supervisors and other FLSA-exempt employees who receive overtime pay is increasing."[18]

Federal managers, supervisors, and other Fair Labor Standards Act-exempt employees, however, face an outdated restriction placed on the payment of overtime that is encouraging

[17] U.S. Office of Personnel Management, "The Fact Book 2002 Edition: Federal Civilian Workforce Statistics," p. 8.
[18] April 28, 1999 letter from Office of Personnel Management Director Janice R. LaChance to House Speaker J. Dennis Hastert.

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some to leave the ranks of management and return to the bargaining unit or move to the private sector so they can earn a higher paycheck.

Under current law, 5 U.S.C. 5542(a)(2), overtime pay for Federal managers, supervisors and FLSA exempt employees (one and a half times the normal rate for work in excess of 40 hours per week) is limited to that of a General Schedule level 10, step 1 employee. The first grade-based overtime cap, enacted in 1954, set the base at GS 9, step 1 (P.L. 83-763). Twelve years later in 1966, it was increased to GS 10, step 1 (P.L. 89-504). In the thirty-three years since that time, however, nothing has been done to keep pace with changing workforce realities. In 1966 the average GS grade was 7.3; in 2001 the average GS grade was 9.7,[19] nearly three full grade levels higher since the implementation of the current overtime cap.

Overtime pay is premium pay and therefore does not count toward increasing an employee's future retirement benefit. This means that increasing overtime pay does not affect mandatory spending. The overtime cap causes two problems for Federal managers and supervisors:

1. First, managers and supervisors above GS-12, step 6 actually earn less on overtime than they do for work performed during the regular work week.

   Example: Sally Supervisor is a GS-13, step 9.
   Her regular rate of pay is $36.14 per hour.
   For overtime, however, she is paid at a rate of $26.64 per hour.
   If Sally worked on a Saturday she would be paid $9.50 less per hour than for the work she performed on Friday.

2. Second, managers and supervisors may earn substantially less for overtime work than the employees they supervise.

   Example: Sally Supervisor is a GS-13, step 9.
   Her regular rate of pay is $36.14 per hour.
   For overtime, however, she is paid at a rate of $26.64 per hour.
   Ed Employee is a GS-12, step 7 and FLSA non-exempt with an overtime rate of $42.09.

[19] U.S. Office of Personnel Management, "The Fact Book 2002 Edition: Federal Civilian Workforce Statistics," p. 26.

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Raising the overtime cap would represent an important step toward addressing overtime problems that increasingly serve as disincentives to hard-working civil servants contemplating accepting promotions into the ranks of management.

MANAGERIAL PAY

The key to improving government efficiency and effectiveness is empowering frontline managers and employees. The success of this effort depends upon the government's ability to develop and maintain a cadre of intelligent, highly motivated managers and supervisors. During the 1990s supervisors were proportionally downsized twice as frequently as non-supervisors.[20] At the same time, spans of control have increased and supervisory duties have grown to compensate for the elimination of administrative support staff.

Because some managers and supervisors receive the same or lesser pay than their employees, it has become increasingly difficult to recruit the "best and brightest" into the supervisory and managerial ranks. Under current law, agencies may pay a supervisory pay differential to ensure that GS supervisors are paid more than the highest paid non-GS employee they supervise.[21] This is an existing authority that should be further utilized to encourage the growth of the managerial and supervisory workforce of the future.

WAGE-GRADE DISPARITIES

The Federal Wage System (FWS) has been one of the most maligned and adversely affected sectors of the Federal government. FMA is concerned about securing adequate pay raises for the 225,000 hardworking men and women covered by the FWS.[22] This number represents only 47 percent of the FWS workforce size in 1984[23], due to downsizing and significant pay disparities with similar positions offered in private industry. Multiple regions across the nation are presently in place to determine the wage of the particular trades and skills that are set in the wage grade pay-setting.

[20] U.S. Office of Personnel Management, "The Fact Book 2001 Edition: Federal Civilian Workforce Statistics," pp. 8,14
[21] 5 U.S.C. 5755
[22] U.S. Office of Personnel Management, "The Fact Book 2002 Edition: Federal Civilian Workforce Statistics," p. 30.
[23] Ibid

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There are several concerns regarding wage-grade pay that demand serious attention in order to make these Federal jobs more competitive and desirable for the younger job seekers leaving our colleges and high schools today. The first concern is the disparity in how pay raises are determined in the present system of wage-grade surveying. The vast difference in locality pay not only occurs from region to region, but also can exist in small pockets within the same locality. A contributing factor to this disparity lies in the methodology used to select wage-grade survey industries and services. While it is true that the cost of living is different from region to region, there is no correlation when you examine how pay scales are set for various trades in our Federal workforce.

A prime example occurs in the wage-grade trades for the nation's ship repair trades. There is a $4 per hour difference in pay for ship repairers who perform the same skill at the Norfolk Naval Shipyard and those working at the Puget Sound Naval Shipyard. This difference was in large part established by the businesses used in those two areas as part of their wage-grade surveys. In the Puget Sound area a huge aerospace and computer industry base was utilized while at Norfolk more service-oriented businesses were examined. Despite the cost of living for the two areas being very comparable, the wage-grade surveys set vastly different pay rates. This occurrence can be found in many areas across the nation, which creates an unfair system for the skilled artisans and workers in our workforce.

In examining the pay-setting features used for wage-grade pay a significant improvement would be the utilization of like industries in establishing pay scales. A more consistent method must be used to establish logical and realistic pay skills for skilled workers. A uniform system to establish the pay scales would be an important step in attracting younger workers into our aging Federal workforce. Fair distribution of pay raises is a primary concern of management and workers in the Federal civil service today. As different methods are examined to use in the setting of pay there must be an element of fairness instilled. A specific trade must be paid on a similar scale nationwide with only the consideration of an area's cost of living as an adjustment. Providing a standard wage-grade survey and pay-scale setting with appropriate locality adjustments would be a step in the right direction to resolve this longstanding inequity.

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General schedule pay has a huge impact on the present setting of wage-grade pay. The trend has been to cap wage grade raises to the percentage set for GS pay. This has also been a primary contributing factor to keeping the pay gap in the double digit levels.

PERFORMANCE MANAGEMENT

For agencies to perform at optimum levels, employees must have clearly defined performance standards. These standards should be directly linked to the agency's mission, customer service goals, and their annual performance plan and/or strategic plan.

According to a Merit Systems Protection Board survey[24] conducted during fiscal years 1997 through 1999, on average one of every 8.8 Federal workers received a promotion each year during the three-year period that was studied. In other words, 7.8 of 8.8 employees – or 88.6 percent of the Federal workforce – were not promoted in any given year. At GS-12, the rate of promotion fell to about one in 13 a year; at GS-13, the rate was about one in 20, and at GS-14, the rate was about one in 25. Generally speaking, the rate of promotion slows as the General Schedule grade level increases. With such a low rate of promotion, the problem of putting the right people in the right jobs is aggravated.

We at FMA support implementing a more comprehensive, government-wide appraisal system with a pay-for-performance component. Any system that should be adopted, however, must be rooted in long held merit system principles.

The current "pass/fail" appraisal system, for example, can serve as a disincentive for excellence. An appraisal system that clearly delineates unacceptable, acceptable and excellent performance is recommended. The appraisal rating should be a key consideration in the promotion and award processes.

The current mechanism in place for addressing unacceptable performance should be revised, for it is far too cumbersome and takes too long to document. As a remedial measure, the employee should be provided tutoring and given a reasonable timeframe in which to attain acceptable performance. We as Federal managers want the process to be fair for both the employee and the agency.

[24] U.S. Merit Systems Protection Board: "The Federal Merit Promotion Program: Process vs. Outcome," Dec. 2001, p. xi.

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We envision a "contract" between the manager and the employee, i.e., if an employee performs at the acceptable level of performance, he/she will retain the position and receive the scheduled within-grade increases; if an employee performs at the excellent level, he/she will receive proper recognition; if an employee performs at the unacceptable level, he/she will receive a reasonable timeframe in which to improve performance.

We at FMA recommend an awards system for managers that adequately reflects the manager's level of responsibility, span of control, and level of achievement. Of course, any such system requires sufficient appropriations funds. We have too often seen new pay authorities without the necessary dollars to utilize these tools. The Bush Administration has proposed a $500 million Human Capital Performance Fund for fiscal 2004 to "allow managers to increase pay beyond annual raises for high-performing employees and address other critical personnel needs."[25] OPM will administer the Fund for the purpose of allowing agencies to deliver additional pay to certain civilian employees based on individual performance or other human capital needs, in accordance with OPM-approved agency plans. Although this is a step in the right direction, questions must still be answered in terms of the disbursement of the funds:

- Who will decide which employees receive increases, and who will determine the amount of such increases?
- Is $500 million sufficient for a workforce of some 1.8 million Federal employees?
- Will this Fund be renewed every year and appropriated accordingly?

Furthermore, FMA does not believe any new Performance Fund should be used to undercut fair and appropriate annual pay adjustments for Federal employees.

PAY BANDING

To help the Internal Revenue Service (IRS) improve tax administration and service to taxpayers, Congress included new requirements affording greater flexibility in handling personnel issues as part of the IRS Restructuring and Reform Act of 1998 (RRA).[26] One of the act's personnel flexibility provisions gave IRS discretionary authority in hiring, paying, and

[25] Fiscal Year 2004 Budget Proposal of the U.S. Government, p. 38.
[26] P.L. 105-206 was enacted on July 22, 1998. Title I, Subtitle C, Personnel Flexibilities, sections 1201-05, list the provisions.

recruiting staff. Section 9509 authorized IRS to implement a broadbanded pay system, also called pay banding, to assist in its reorganization. Pay-banding combines two or more pay grades. Using this provision, IRS combined between 2 and 3 grades per band.

The IRS began its "pay-for-performance," pay-banding effort with conversion of Senior Managers (SM) in March 2001. The following December, Department Managers (DM) were converted to the pay-banding system. There are separate pay bands for each level of IRS management. The SM Band is for all mid-level positions. The DM Band combines grade 11-13 Service Center positions. The Service recently decided that the remaining GS/GM managerial positions in the Service will be converted to the pay-banding system effective in July 2003.

IRS plans to establish two Frontline Manager (FM) pay bands to include remaining managers not currently covered by the SM or DM pay bands. The FM I pay band will cover GS managerial positions at grades 7 through 11, and the FM II pay band will cover GS/GM managerial positions at grades 12 through 14. Frontline grade 15 managerial positions will be converted to the SM pay band.

Managers in the FM pay bands will continue to receive the annual comparability and locality increases. However, once in the pay band, step increases will no longer be automatic; rather, they will be based strictly on performance. Managers covered by an FM pay band will be eligible for their first performance-based step increase in January 2004, based on their FY 2003 performance ratings. Thereafter, salary reviews and any appropriate step increases will occur every 2 years. Annual performance bonuses will be mandatory for those managers earning an "Outstanding" summary rating. Managers in the FM pay band with summary ratings of "Exceeded" will be eligible for performance bonuses every year. The Service has established a bonus pool of 2% of FM salaries to fund FM bonuses.

Some of the IRS pay-band principles include:

- Appraisals will be done every year, but salary determinations are made every 2 years. The determination of whether an employee progresses further in the band is determined by matching 2 consecutive annual ratings and then matching them to pre-determined minimum rating requirements.

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- Rating requirements to progress through the band increase the further the employee moves. (Example: In the beginning of the band two "Met" ratings are needed to move forward in the SM Band. One rating of "Outstanding" and the other of at least "Exceeded" are needed to move into the last increment of the band.)
- Pay-banded employees can receive annual bonuses based on the yearly appraisal. The bonus is a one time payment that does not become part of base pay (salary).
- All employees in IRS pay bands receive the General Schedule comparability increase.
- Employees converted into IRS pay bands are given credit for time spent in current step when converted. (Example: Current Grade 13, step 9 with 2 years under current step; the salary of Grade 13, step 9 increased by 2/3 of the value of the step increase between steps 9 & 10; the new amount is then slotted into the new pay band salary chart. If the employee falls between steps s/he is slotted at the higher step.)
- To ensure ratings consistency, performance review boards were built into the system. The review examines ratings given to ensure consistency of criteria application.

Within FMA, we have conferences divided along agency lines, one of which is the FMA-IRS Conference. Feedback from our IRS Conference shows that pay bands offer the opportunity to provide real recognition to top performers. The General Schedule places its emphasis on longevity. As long as an employee maintains a satisfactory level of performance, s/he will move through the step, and if s/he stays employed long enough, s/he will reach the top of the step.

Pay bands also provide the opportunity to have accelerated salary progression for top performers. Under the IRS pay-band system, managers are eligible for a performance bonus each year. Those managers with "Outstanding" summary ratings will receive a mandatory performance bonus. Managers with "Exceeded" summary ratings are eligible for performance bonuses.

In the area of job classification, determinations are made which place positions in different pay categories where the distinctions that led to the classification are small. Pay-

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banding provides the opportunity to place greater weight on performance and personal contributions.

Pay bands can also be designed to provide a longer look at performance beyond a one-year snapshot. Many occupations have tasks that take considerable lengths of time. Pay bands can be designed to recognize performance beyond one year. (The IRS system combines two consecutive yearly ratings to determine whether an employee moves forward in the band). Arbitrary grade classifications in the GS system inhibit non-competitive reassignments. Broader bands allow non-competitive reassignments. This enhances management flexibility and developmental opportunities.

Of course, there remain challenges with the IRS pay-band system, and any proposed pay-band system for that matter. First, pay-for-performance systems are only as good as the appraisal systems they use. Since performance is the determining factor in pay-band movement, if there is no confidence in the appraisal system, there will be no confidence in the pay system. Moreover, pay-for-performance systems can be problematic where there is an aging workforce. Experienced employees tend to convert towards the top of the pay band. This provides them little room to progress through the band, and only if they achieve higher levels of performance ratings. This is particularly true for those employees whose GS grade is the highest grade in the new band. (Example: Grade 13 employee placed in an 11-13 band. S/he will be towards the top and now will need the higher grades to continue to move ahead. Previously s/he only needed time in grade to progress).

Finally, pay-band performance requirements can discourage non-banded employees from applying for banded positions. If the employee is converted in the upper range of a band s/he may not have confidence s/he can achieve the higher ratings requirements.

For additional guidance, Congress should look to the pay-banding system being implemented at the Federal Aviation Administration (FAA). As a result of legislation in 1995 that granted the agency broad exemptions from laws governing Federal civilian personnel management found in Title 5 of the United States Code, the FAA is managing its personnel in one of the most flexible human capital management settings ever witnessed in the Federal government. In 1996, FAA announced a sweeping reform of its personnel management system.

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Once exempted from these provisions of title 5, FAA replaced the traditional grade and step pay system with a broadbanded pay structure that provides for a wider range of pay and greater managerial flexibility to attract, retain, and reward employees.

ESCALATING HEALTH CARE COSTS

Over the past few years, Federal employees have experienced dramatically increasing health insurance premiums through the Federal Employees Health Benefits Program (FEHBP). Premiums rose an average of 9.5 percent in 1999; 9.3 percent in 2000; 10.5 percent in 2001; 13.3 in 2002; and, 11.1 percent this year. Currently, the Federal government pays 72 percent of a Federal employee's contribution for his health insurance premium.

Most experts anticipate premiums will keep increasing due to the Federal government's aging workforce (the average Federal worker is now 46.5 years of age), higher costs for prescription drugs, as well as a longer-living retiree population. FMA supports increasing the government's contribution toward FEHBP premiums. This change would remove some of the burden related to rising health insurance costs from the shoulders of Federal employees. By increasing the government's share of premiums, the FEHBP will be brought more in line with what most private and state employers pay, which is 83.1 percent for single health coverage and 76.2 percent for family coverage, according to the Kaiser Family Foundation. In fact, more and more private-sector employers are offering to pay up to 100 percent of their employees' health insurance premiums.

Congress should pass legislation, H.R. 577, introduced by Rep. Steny Hoyer (D-MD), and S. 319, sponsored by Sen. Barbara Mikulski (D-MD), to increase the Federal government's share of FEHBP premiums from 72 percent to 80 percent to help curb rising health insurance costs for Federal workers as well as recruit and retain needed Federal employees. This legislation would save an employee an average of $20 per biweekly pay period, for an annual average savings of more than $500.

Similarly, Congress should pass legislation, H.R. 1231, introduced by Rep. Tom Davis (R-VA), and S. 623, sponsored by Sen. John Warner (R-VA), to allow Federal retirees to pay for their FEHBP insurance premiums on a pre-tax basis. As implemented by OPM, Executive

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Branch employees have been eligible to pay for their FEHBP insurance premiums with pre-tax earnings for nearly three years. FMA supports extending this important benefit to Federal and military retirees. This would provide fairness to the implementation of this tax relief measure and assist government retirees in offsetting the rising costs of health care.

CONCLUSION

The reduction of the Federal workforce during the last decade by more than 450,000 positions occurred while needs of the American public continued to expand. Simply put, there are fundamental services that should be deemed core to the government. The loss of many experienced and well-trained employees through the use of reductions in force contributed to the "brain drain" that is pervading the workforce. The "do more with less" mantra of government will continue to erode the remaining employees' morale and dedication as public servants. This shift in philosophy must be exuded by more leaders in government who represent the cross-section of our Nation. It is not outlandish to say today that, in hindsight, an entire generation of Federal workers was forced to leave government in the name of efficiency – while leaving behind a human capital crisis.

The initial efforts to solve this problem are to simplify the recruitment and hiring process. There must be a concerted effort to shorten the hiring time from one hundred and forty-four days down to a more reasonable number so as to not lose potentially high-caliber civil servants who will serve our country for years to come.

An independent panel should be convened to scrutinize the extent and realm of the "shadow government" that is comprised by private contractors. All agencies have their pool of contractors that perform certain functions to sustain the government. While the calls are heard daily to further examine the performance of the Federal worker, there continues to be silence in response to suggestions that the same level of oversight be done for the contractors employed by government. Again, FMA believes there are some functions performed in the name of government service that can and should be contracted. Likewise, however, there are government functions that have been contracted that belong only in the hands of civil servants.

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Now it is time for government leaders to take the side of the Federal employee. It is time for all of us to collectively encourage the youth of this nation to join the Civil Service. The positive support and reinforcement from current and future administrations and Congresses will serve to accelerate the replacement of outgoing civil servants.

As we collectively grapple with the complex issue of compensation reform in the Federal government, we must find where models such as the ones being used at the IRS and the FAA have succeeded – and failed. There have also been numerous instances of demonstration projects in the area of expanding personnel authority bringing success to some Federal agencies, but rarely are these successful initiatives allowed to cross agency lines. The approach the government takes to correct pay systems for civilian workers will decide how this Nation survives the human capital crisis before us. More importantly, Congress and the Administration must shift the habitual focus from cutting the size of the Federal workforce to that of recruiting and retaining top talent.

Some of the challenges facing the Federal workforce will be difficult to overcome should a continued priority be placed on conversion of critical Federal sector jobs to private sector activity. The loss of valuable and experienced employees – and the institutional wisdom they provide – is already taking place. No real succession planning, including managerial development and training, has been funded or implemented to ease the strain the system is facing as retirement-eligible employees leave the public sector.

We at FMA would like to propose several recommendations. One important priority is to work with both the Administration and Congress to alter the image and perception of the civil service. Far too often, civil servants have unfairly taken the brunt of the blame for ill-advised policies that they had no control over. The public must recognize the important duties our Federal employees perform each and every day on their behalf. Everyday, Federal employees are working tirelessly behind the scenes to ensure that our Nation remains as secure as possible. Everyday, a disaster of some sort is averted through the dedicated efforts of our extremely talented Federal workforce. Yet we often hear stories of blame being assigned to these public servants, rarely about the successes that occur on a daily basis. And while our attention is

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focused on security, the business of our Nation continues to move forward in an increasingly efficient manner.

All the while, Federal workers at the Departments of Transportation and Justice are providing heightened security of our skies, our shores, and our borders; employees throughout the Department of Defense are supporting our warfighters as they continue fighting the war with Iraq as well as the war on terrorism; and the ongoing endeavors of the talented individuals at the Centers for Disease Control are addressing immediate terrorist threats while preparing us for future contingencies. Time and time again, our civil service selflessly responds in a professional manner – all for the greater well-being of the country they serve.

We at FMA would also like to see a review of FEPCA to examine what adjustments need to be made to enable the legislation to work as intended. Any constructive dialogue on FEPCA at this point is better than the hollow act of preempting designated pay increases each and every year, which serves only to exacerbate the low morale that is pervading our civil service.

We also support ways to improve the hiring process for Federal employment, and bring about policies that attract the best and brightest of our society to serve in Public Service. Correspondingly, managers should be afforded the means to continuously enhance their skills. Individual development plans should be devised to maximize each manager's potential. Agencies and departments should increase opportunities for managers to receive training in their respective fields while on-duty by specifically allocating funds for this training. Thus, FMA supports establishing management succession programs to ensure that we have the strongest possible pool of managers to lead tomorrow's civil service.

Finally, we encourage a real and sincere look at Federal pay systems, while encouraging structures that attract, retain, and maintain the Federal workforce we need and desire. The system must be fair and realistic in offering career ladder incentives and progression. Congress must also look at legislation that has been introduced to ensure that Federal retirees and their spouses do not lose benefits they are entitled to receive as being citizens of this great democracy. The time has come to eliminate the penalties and caps placed on a Federal retiree's Social Security benefits. Both Government Pension Offset and the Windfall Elimination Provision

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must be done away with to allow former civil servants to receive their just rewards for serving their nation and being a citizen of the United States of America.

FMA has long served as a sounding board for the Legislative and Executive branches in an effort to ensure that policy decisions are made rationally and provide the best value for the American taxpayer, while recognizing the importance and value of a top-notch civil service for the future. We must keep in mind that even if passed into law, without the necessary funding, no real benefits will be realized – and thus no real progress will be made.

I would like to close by quoting from the introduction of your report[27] to the President, Mr. Chairman, on the human capital crisis: "In regard to empowering federal employees, Senator Voinovich is interested in and enthusiastic about improving the management and work culture of the federal career civil service employees and middle-managers who do much of the heavy lifting yet receive little acclaim for their hard work. For years citizens have complained about slow and unresponsive bureaucracies, blaming federal employees for the problems. Perhaps the problems lie not with the employees, but with the management and culture of the workplace. Do employees receive the training they need? Are they receiving the proper incentives to do a good job? In short, is the government investing in its people?"

These are all salient questions that we in government must continually ask ourselves as part of our long-term vision for the public service. Only by doing so will we stave off a future human capital crisis and, more importantly, ensure a world-class and resilient Civil Service for future generations of Americans.

I would like to thank you again, Chairman Voinovich and Chairwoman Davis, for providing FMA an opportunity to present our views. We at FMA look forward to working with you and other Members of Congress to deal with our government's workforce challenges in our mutual pursuit of excellence in public service. This concludes my prepared remarks. I would be glad to answer any questions you and members of the subcommittee might have.

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[27] Sen. George Voinovich: "Report to the President: The Human Capital Crisis," December 2000, p. 1.

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Senate Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia and
House Subcommittee on Civil Service and Agency Organization

April 8, 2003

Prepared Testimony on behalf of the National Commission on the Public Service

Paul A. Volcker, Chairman

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The National Commission on the Public Service was initiated by the Brookings Institution Center for Public Service, which is directed by Paul C. Light. It is supported by a grant from the Dillon Fund. The Commission report and further information on the Commission and the organizations and individuals that assisted it are at www.brookings.edu/Volcker.

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Executive Director, National Commission on the Public Service

Testimony for the Senate Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia and the House Subcommittee on Civil Service and Agency Organization

April 8, 2003

Chairwoman Davis, Congressman Davis, Chairman Voinovich, Senator Durbin and Members of your subcommittees, thank you for inviting the National Commission on the Public Service to testify at this hearing on offering solutions and delivering results to the human capital challenge. Commission Chairman Paul A. Volcker and the Commission Members appreciate this Subcommittee's interest in their findings and recommendations I particularly want to convey the Commission's gratification for the extraordinary level of interest in proposals to give the American people, including the federal workforce itself, a government that is capable to meeting its 21st Century responsibilities.

You have the Commission report, ***Urgent Business for America: Revitalizing the Federal Government for the 21st Century,*** and I ask that it be included in the committee's record. This testimony will outline the major recommendations made by the commission and the reasoning behind them. I will also comment on how the legislative proposals recently introduced by members of the subcommittee relate to the Commissions findings. In response to the Subcommittees' request for information on the overall status of the federal workforce, I note that the Report discusses in detail the problems, and opportunities, which were the basis of the Commission's work.

The Commission. The Volcker Commission came together on the basis of shared concern about the low level of public trust in government and about the ability of government to meet its critical 21st century responsibilities. The Commissioners who agreed to take on this task are from all political persuasions and both major political parties. Each of them has a wealth of public service experience - collectively, they have served in every presidential administration beginning with President Harry Truman. They have been elected to the House of Representatives and the U.S. Senate; they have run the Federal Reserve, the Departments of Defense, Treasury, Health, Education and Welfare, and Health and Human Services. They have run the Office of Management and Budget, the General Accounting Office, VISTA, the Office of Presidential Personnel, and have served our country in the Central Intelligence Agency, as Deputy Secretary of State, in the Foreign Service and as White House Chief of Staff. Importantly, they have experience at the state and local levels, leading efforts for economic renewal and development. And this does not include their private sector achievements.

This group first gathered in the wake of 9/11 - convinced more than ever that major reform was critical to our nation's very survival. They were also encouraged by the opportunity presented by the surge in public support for government and those who do its work.

Setting the Agenda. In announcing the creation of the Commission in February of 2002, former Federal Reserve Board Chairman Paul A. Volcker said the Commission's goal was to make recommendations for the reform and renewal of the public service.

Thus the Commissioners began their work a year ago by examining the challenges confronting federal employees - and the difficulties in attracting and retaining the skilled, knowledgeable and experienced federal workforce demanded by our 21st Century government. Soon, though, they came to the conclusion that today's federal workforce must have a government that is designed to meet today's critical missions. They did not start with organizational reform because they thought it was more important than the problems facing the federal workforce -- they were convinced that to be fully effective, federal workforce reforms must take place within a modernized government.

The Organization of Government. As the Commission began its work it confronted a persistent set of problems: the public's trust in government has been declining for many years; the data showed a strong correlation between the level of trust and the perception of government performance; and surveys indicated that federal workers are frustrated in their efforts to get the job done and have difficulty seeing how their efforts contribute to the government's critical missions.

Many examples of the need for mission clarity are described in the Commission report. One problem discussed in the Report was brought to focus through an investigation conducted by this Senate Subcommittee into federal food safety programs. It took the attacks of 9/11 for us to take heed of the warnings of the Hart-Rudman Commission that "redundancy and overlap between organizations, as well as greatly diffused lines of authority, responsibility and accountability" were undermining our national security.

The Commission's vision for the organization of government begins with a reorganization of government agencies into a limited number of mission-centered departments, each of which would be composed of individual operating agencies sharing the common mission. Managers chosen for their leadership ability would head the operating agencies and each agency structure and operating system would be designed to fit the particular requirements of its mission.

Recognizing that this task will be both difficult and take many years, the Commission asks Congress to legislate a procedure under which the President, within Congressional guidelines, can propose government reorganization plans for expedited consideration. The Commission viewed this as a collaborative process, within a legislated framework, which would include the merit principles of government employment.

Some of the benefits which can result from reorganization were described by Paul Light, Director of the Center for Public Service at the Brookings Institution and Senior Advisor to the Volcker Commission, in testimony to the House Government Reform Committee on April 3, 2003:

1. Reorganization can give greater attention to a priority such as homeland security or food safety.

2. Reorganization can reduce overlap and duplication among widespread programs, thereby increasing accountability and efficiency.

3. Reorganization can create a platform for a new and/or rapidly expanding governmental activity.

4. Reorganization can force greater cooperation among large, quasi-independent agencies such as the coast Guard and Federal Aviation Administration.

5. Reorganization can create greater transparency in the delivery of pubic goods and services to and on behalf of the public.

6. Reorganization improve employee satisfaction and performance.

The Commission urged Congress, too, to reorganize its own committees and subcommittees around today's mission responsibilities.

Leadership for Government. The former cabinet members in the group gave particularly strong testimony to the need to significantly reduce the number of political employees. They believe, based on their own experience, that strengthening the working relationship between top political leaders and career executives enhances morale as well as performance.

Adequate, ongoing, consistently financed training was noted as important to developing and keeping the skilled leadership to run the mission based agencies envisioned by the Commission's proposal.

To improve advancement and career opportunities for both managers and those with the technical skills that modern government must have, the Commission recommended creating an Executive Management Corps and a Professional and Technical Corps within the SES.

The commission focused considerable attention on the pay of government's leaders for two reasons: First, there is a demonstrable critical challenge to effective governance when the leadership of government is significantly underpaid. Second, executive level pay caps are currently a barrier to pay reform, including pay for performance, for

the entire federal workforce. The Commission's recommendations on the issue of pay are outlined below.

Operational Effectiveness in Government. As noted above, the Commission recommends that more flexible personnel management systems be developed by the operating agencies to meet their individual needs. Concurrently, they recommended that the existing classification system and the general schedule be terminated. As the Director of the Office of Personnel Management so clearly articulated in her White Paper on federal pay modernization, they were designed for a workforce that no longer exists. The Commission recommended that a "broad-band" system be adopted as the government's default system. In the alternative, an agency would adopt a system which best supported its own mission.

Two additional areas addressed by the Commission bear on the issue of operational flexibility: First, is the importance of increased and careful oversight, by Congress and responsible executive branch leadership, to assure that the new system and personnel flexibilities stay on track. Concern is sometimes expressed that those in charge will abuse a system with flexibility. Careful and ongoing oversight, including statutory assurance of merit principles of government employment, can ease concerns and prevent that from occurring.

Second, and related, is the importance of ongoing training. Managers and executives who receive appropriate training throughout their careers are much more certain to be good managers and leaders. In fact the Commission believed that adequate and consistently funded training for all federal employees was of great importance. Training is certainly an area where penny wise is pound-foolish.

Competitive sourcing is an issue of ongoing concern and the Commission set out standards under which it believed it should operate. These note that government contracting can assist government meet short-term needs and acquire difficult to find skills. The process itself can save money and enhance performance, whether the contract is awarded within or without. Concurrently, it should not used for the purpose of reducing the federal workforce, nor operate in a manner which seems unfair and undermines employee moral. Not incidentally, the Commission called for a new era in labor management relations and cited several

cooperative arrangements at the federal, state and local level that might be used as models.

Setting Federal Pay

The Commissioners developed three overarching principles that they believed should guide pay decisions:

1. Government pay must reflect current market conditions if government is to attract and retain the workforce it needs to perform its responsibilities.

2. The relevant "market" for most of the federal workforce should be comparable jobs and abilities in the general workforce. The relevant "market" for government's senior leadership should be positions demanding comparable responsibility and capabilities in the non-profit workforce.

3. Pay should be tied to performance.

Studies by the Congressional Budget Office, the Office of Personnel Management and private organizations show that federal government pay disparity with the private sector is not uniform across all government positions. Although the recently released OPM 2002 Survey of Federal Employees indicates that 64% of federal civilian employees are "satisfied" with their pay, 34% said they are considering leaving the federal service, and only half of that group is leaving to retire. Other problems related to pay are quite clear: agencies have to be given special pay authority to attract workers with specialized skills; pay compression has resulted in nearly 70% of the SES receiving the same pay; federal judges - whose appointments are for a lifetime - are resigning in growing numbers, with many citing continuing loss of buying power as the reason.

For the majority of federal workers, the private, for-profit sector was identified as the appropriate market on which pay should be based. The Commission recommended that Congress establish policies that permit agencies to determine the specific relevant market for their employees and to adjust their compensation to its exigencies.

The Commission suggested a different compensation standard for senior government positions, such as federal judgeships, executives and members of Congress. There, they looked toward comparable positions in the private non-

profit sector as a guide. Associate Justice Stephen Breyer suggested this standard to the Commission when he testified in July of 2002. The Report includes a comparison of executive pay for several categories of non-profit entities. These included universities as well as think tanks, labor unions, public interest groups and foundations of relatively significant size. In every case, the compensation of the leadership of these non-profit institutions was notably higher than that of the senior leadership of the federal government.

Chief Justice William Rehnquist and Associate Justice Breyer took the unusual step of offering public testimony at the Commission's hearings last year. They, and leaders of the federal judiciary across the board, are deeply concerned about the effect of federal judicial pay stagnation on the administration of justice. They noted that between 1969 and 1999, real pay for federal trial court and appellate court judges declined by about 25%. During the same period of time, the real pay of the average American worker increased by 12.4%. From 1994 to 2000, every category of U.S. workers gained relative to inflation other than federal judges and Members of Congress. The gain in national average wages in this period was approximately 14%, while the decline for Members of Congress and Federal Judges was nearly 10%.

Another area where pay has been effectively capped is the Senior Executive Service. As a result of SES pay being tied to Executive Level III pay, and the Executive Level pay effectively capped by Congressional pay, we have reached the point now where 70% of the SES earns the same compensation. This situation is unfair, demoralizing, and severely limits the ability to reward performance.

Congress began the work of easing the cap on federal pay in 1999 when it raised the President's salary from $200,000 to $400,000 (P.L. 106-58). The Commission recommends that Congress immediately increases the pay of these other "capped" senior government officials, including federal judges and Members of Congress themselves. Should Congress not want to give itself this level of increase, the Commission asked it to de-couple its own pay from that of federal executives and judges. But I will repeat for the record the Commissioner's statement that: "Few democracies in the world expect so much from their national legislators for so little in compensation."

Pay for Performance

On the issue of performance, the Commission's report repeatedly stresses the important role the Commissioners believe performance should play in the awarding of pay. The experience of the Senior Executive Service illustrates how the existing systems can have the opposite effect. The SES was established in 1978 with a rewards and incentive system where compensation would be closely tied to performance. Those who performed at the highest levels were supposed to get bonuses and merit awards equal to a substantial portion of their annual pay. Unfortunately, the reward system has been inadequately funded and today, the pay cap has resulted in 70% of the SES receiving the identical pay.

Witnesses at the Commission hearings referred to the existing federal rewards system as "peanut butter." This is the name federal employees have given to the practice of spreading the funds available for performance rewards broadly across the workforce to make up for lagging base pay.

In addition to inadequate funding of awards, the pay cap and the peanut butter syndrome, a fourth barrier to utilizing existing performance incentives is the fact that like the residents of Lake Wobegon, everyone working for the federal government performs above average. In fact, the performance rating for most of the federal workforce is in the superior category. Of the 700,000 employees who were rated in 2001 using a pass/fail system, 93% passed and just .06% failed. The rest were not rated. Of the 800,000 federal employees who were rated that year using a five-point system, 43% were rated as "outstanding," 28% as "exceeds fully successful," 18% as "fully successful" and just 0.55% as either "minimally successful" or "unacceptable." (Paul C. Light, *The Troubled State of the Federal Public Service*, Washington: Brookings Institution, June 27, 2002)

Although the task of establishing performance award systems may seem daunting, if one begins with a clear articulation of the mission of the agency, it becomes much simpler and non-subjective to establish viable performance measures for the employees in that agency. The proposal to begin on a full-scale pay for performance system with the SES may be a way to get this process started and simultaneously allay concerns.

In recommending adoption of pay systems which reward excellence in performance the Commission, led by Chairman Paul Volcker, again stress the importance of oversight by both the responsible political leadership in the executive branch and by the Congress to make sure the systems are implemented fairly and pursuant to the government's established merit principles.

Proposed Legislation Under Consideration by the Subcommittee. Although the Commission completed its recommendations prior to the introduction of these legislative proposals, in very many respects they are consistent with or directly carry out commission recommendations. As I noted at the beginning of my testimony, the Commission is gratified to see the high level of interest in and commitment to public service reform exhibited by members of the Government Reform and Governmental Affairs Committees.

The Presidential Appointments Improvement Act of 2003 addresses the problems of unnecessarily burdensome reporting requirements, the excessive number of presidential appointees, the difficulty new presidents face in getting their team in place. All of these are problems cited by the Commission as needing immediate reform.

The Senior Executive Service Reform Act of 2003 provides relief from the cap on SES pay, which the Commission specifically recommended. It also adopts a pay band system, and institutes pay for performance, both of which were approaches strongly recommended by the Commission.

The Federal Workforce Flexibility Act of 2003 adds in many respects to the government's recruitment and retention arsenal, an ongoing effort that the Commission applauded in its Report. It reinforces the importance of training, believed to be critical by the Commission. It also enhances the ability to conduct demonstration projects. While experiences has shown that this is a needed reform, I will note the Commission's observation that "the time for tinkering around the edges is past," and its urgent hope that the lessons gleaned from the many government demonstration projects could begin to be put in place government-wide.

Finally, the **Generating Opportunity by Forgiving Educational Debt for Service Act of 2003, GOFEDS** goal of making government more attractive to new graduates is one that the Commission strongly shares. Legislation introduced by Senators Akaka, Durbin, Voinovich and Allen to increase the number of graduates ready to fill national security positions also addresses this goal.

Thank you again for inviting the National Commission on the Public Service to share its findings and recommendations with the Subcommittees.

From start to finish, the Commission was aided, challenged and encouraged by many organizations and individuals long concerned with the state of the public service and the operations of the federal government. It was the input and expertise of these public and private sources of expertise that made it possible for the Commission to accomplish its task. Those contributing to the Commission's knowledge included the Council for Excellence in Government, the Kennedy School of Government, the National Academy of Public Administration, the Partnership for Public Service, RAND, U.S. General Accounting Office and the U.S. Office of Personnel Management.

TESTIMONY OF STEVEN KELMAN,

ALBERT J. WEATHERHEAD II AND RICHARD W. WEATHERHEAD PROFESOR OF PUBLIC MANAGEMENT

JOHN F. KENNEDY SCHOOL OF GOVERNMENT, HARVARD UNIVERSITY

BEFORE A JOINT HEARING OF THE SENATE SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL WORKFORCE AND THE DISTRICT OF COLUMBIA AND THE HOUSE SUBCOMMITTEE ON CIVIL SERVICE AND AGENCY ORGANIZATION

APRIL 8, 2003

Chairman Voinovich, Chairman Davis, Senator Durbin, and Congressman Davis, thank you so much for the opportunity to testify before you today. As I stated when I testified before Senators Akaka and Voinovich on this issue last year, I would say, as a teacher and as a citizen, that you are acting in the best traditions of the U.S. Congress by your interest in creating a world-class federal workforce. This is an issue that will never get headlines or win you an election. But it's important. It's the right thing to do. This is what statesmanship is all about.

I also applaud the title of today's hearing, "offering solutions and delivering results." This emphasizes the constructive effort in which you are challenging all of us to engage. I must confess that it was extremely painful to be watching from Cambridge the

extreme partisanship that marred the discussion of workforce issues during consideration of the Homeland Security bill last year. Frankly, that partisanship did not reflect well on any of those who engaged in it. I hope that we can rededicate ourselves this year to working on workforce policies and a work environment in the federal government that will promote the other part of the title of today's hearing, delivering results. "Delivering results" is exactly the right focus for our efforts. While workforce policies and practices of course must show respect for the dignity and rights of all employees -- and ignoring the needs of employees for decent wages and working conditions, and for challenging work, will hurt our efforts to recruit and retain good people -- we can never take our sights off the fact that the primary goal of these policies and practices must be to improve the performance of government in delivering results to the American people.

Broadly speaking, we should have two objectives in the strategic management of people in the federal government: (1) to hire as many talented, committed people as possible into government service, and (2) to create workplaces that will retain those people and motivate them to do their best on behalf of the public they serve.

The federal government still has the potential to attract talented, enthusiastic young people. Just recently, we at the Kennedy School learned that 40 of our graduating Master of Public Policy students have applied and been accepted into the Presidential Management Internship program – out of 180 graduating students. I am also very pleased to report that one of my students accepted into the program, Amy Dain, received three communications from federal agencies within a week of hearing of her acceptance into the program from agencies interested in hiring her. Amy says: "The PMI recruitment effort has made me think about job opportunities that I would not have considered for

myself or known where to seek." This is a big change from past years, and is a testimony to the increased interest in workforce issues that leaders such as you, Senator Voinovich, and Comptroller-General Walker have generated – and of the efforts of Director James and her team at OPM.

We have increased our own efforts at the Kennedy School to attract our graduates to federal service. We have a program that provides generous loan foregiveness (for all of a student's loans, both undergraduate and graduate) to students who take jobs in government, along with a special loan foregiveness program for students who take PMI's. For example, for a single student working in government with an annual income, and liquid assets (above a $10,000 deductible for liquid assets), between $32,000 and $39,000 in a given year, the Kennedy School will repay 75% of the student's loan payment for that year. Married students with an annual income, and liquid assets, of up to $80,000 in a year are eligible for significant loan foregiveness. Harvard's president, Larry Summers, has announced a new university-wide Presidential Scholars program that will provide $14 million of university-provided financial assistance over the next three years for students in eight of Harvard's graduate schools pursuing designated public service careers. We subsidize travel costs for some of our graduates working in government who come to the Kennedy School to recruit. And we host an annual career networking fair each year to allow our graduating students to meet with over 200 alumni working in the Washington metropolitan area.

Let me address briefly some of the legislative language you are considering today that deals with recruiting and retaining a good workforce. I support all the provisions in S.129 and commend Senator Voinovich and others for building on the successes achieved

last year in governmentwide workforce reforms. Of the provisions, I believe the most important is Section 101, calling for streamlined demonstration authority to try out new ways of managing people in government. Such experimentation is the best way to develop and test promising approaches, both in terms of recruitment/retention and of workplace design, that can improve the performance of government. The language in Section 101 also provides appropriate involvement for Congress in making decisions about whether demonstration programs become permanent. Furthermore, I believe the expanded flexibility for offering recruitment, relocation, and retention bonuses is an especially valuable provision.

I also support Section 302, which allows agencies to use non-federal service as a basis for a newly hired employee's leave accrual. This provision is important because it addresses one of the barriers to hiring people from the outside at mid-career into federal jobs. Making it easier and more accepted for government to hire people from outside government at mid-career levels is crucial if the government is to take advantage of a talent pool now increasingly available because of changes in the attitudes of young people towards careers. As has been documented in a number of contexts, young people today seldom expect to start with an employer at the entry level and stay in the same job for an entire career. If the government continues its traditional approach of hiring from the outside largely at entry and senior political levels only, we will lose access to many in today's generation who might like to spend some time doing public service as one stage, but one stage only, in a career with many different jobs. This also means that government needs to adapt so as to welcome people who may serve for a few years only, rather than an entire career. The reward for making these changes is dramatically to

expand the talent pool available to government, in career civil service rather than political positions, for some period of public service, even if not for an entire career.

Mid-career entry should become particularly appropriate for key jobs involved in the management of government contracts. For managing contracts effectively, one set of skills the government often needs is technical skills involving the work contractors are performing. An example involves management of information technology contracts. If these skills are not available in-house, then an appropriate strategy for government is to recruit people who have developed technical skills outside of government and promote them into program management jobs inside government.

There are still too few opportunities to enter federal service at a mid-career level from outside the government. One of my students graduating this June – a talented, enthusiastic former participant in Teach for America now looking to enter federal service – came to me recently to express frustration that a job as an intelligence research specialist at the FBI, in which he was interested, was limited to "current and former civilian federal employees." I can assure you that the FBI, and our Nation, would have benefited from his ability to contribute. But he's being denied the chance to do so. Also to encourage mid-career hiring, I strongly endorse the various measures suggested in the report of the Partnership for Public Service on mid-career hiring, particularly establishment of a mid-career version of the Presidential Management Intern program, which I would urge be made part of this bill.

I support the GOFEDS bill. In conversations with our students, loan burdens are one of the most-commonly presented reasons for taking more highly paid private-sector

jobs over lower-paid government jobs. GOFEDS is one important contribution to righting that imbalance.

Finally with regard to hiring the best talent, I would suggest two additional provisions for S.129. One is that the bill include a provision to amend 5 USC 201, which currently states that hiring and promotion decisions should be made based on the "knowledge, skills, and abilities" of candidates, by adding the word "accomplishments." The current language was written at a time when we did not have the same focus on achieving results from government as we have developed over the last decade. An article last spring in my hometown paper, The Boston Globe, about how private firms scan the resumes of job applicants caught my attention. The basic point of the article was that in looking quickly at resumes to decide which candidates merit further attention, private-sector HR people emphasize evidence of accomplishments. The article quotes one HR professional as follows: "If you just list responsibilities of previous jobs, excluding accomplishments, an employment manager is likely to say, 'So what,' and move on to the next resume."

By contrast, current statutory language in Title 5 fosters a bureaucratic, formulaic preoccupation with ticket-punching and time-serving – number of years of experience, formal job responsibilities, and formal courses of study. The addition of the word "accomplishments" to the statute is obviously not a panacea, but it sends a powerful signal that we care about results and that we want to hire and promote people with a similar passion.

Second, I would suggest S.129 include a provision expanding the scope of existing Outstanding Scholar hiring authority to extend to the GS-9 level, from its current

ceiling at the GS-7 level. Extending this program to the GS-9 level would allow the direct hire authority available for students with excellent academic grades to extend to graduates of master's degree programs, such as master's programs in public administration, public policy, public health, and international affairs. This Outstanding Scholar Program is important not only for the smart young people it makes it easier for the government to attract, but also for improving the image of the federal government as an employer at our nation's universities. The more outstanding students accept federal employment, the more attractive such employment becomes to other outstanding students considering job choices.

I am aware that the Merit Systems Protection Board, in a report they issued two years ago, argued that college grades were only a modestly good predictor of job performance. It is true that most studies show only modestly positive correlations between grades and job performance. But these studies do show a positive relationship, even when these are the only two factors taken into consideration. And the only study of the Outstanding Scholar Program in government the MSPB report discussed concluded, as MSPB itself notes, that employees hired through the Outstanding Scholar Program did better, in terms of awards and performance ratings, than those hired using the "rule of three" method. Nobody would suggest that grades be the only factor determining who gets hired for a job. In my view, the Outstanding Scholar criteria should be used not to make job selections with no further consideration of other criteria, but to generate a pool of good applicants who hiring managers may then choose based on other factors, including those with an even higher predictive ability for job performance. This opportunity, in my view, should be expanded.

Let me move to the other strategic goal I outlined earlier, creating workplaces that will retain talented people and motivate them to do their best on behalf of the public they serve. In this area, the battle will need to be waged primarily within the executive branch, indeed on the front lines of the federal workplace where the government either creates, or fails to create, high-performance workplaces that excite employees and produce results that serve the public. This was, of course, what you did, Senator Voinovich, in promoting total quality management as an alternative to bureaucratic government while you were Mayor of Cleveland. The Administration includes many competent managers and executives who take the strategic management of people seriously; I urge that workplace redesign efforts – away from bureaucracy and process, towards responsibility and results-orientation – be a priority in the management of federal agencies.

Even if we hire the best people – in fact, especially if we hire the best people – if we don't provide meaningful, challenging jobs, where employees feel they can make a difference, we will lose them. The surveys that The Brookings Institution, under Paul Light's direction, has done that show significant job dissatisfaction among young people serving as Presidential Management Interns should be a wakeup call that we have big problems in this area.

This is an area where we still have a very long way to go. Surely, there are many, many exciting and personally rewarding career government jobs. But, as a whole, federal workplaces are still too mired in bureaucracy, hierarchy, poor supervision, and a lack of orientation towards results. They do too little to provide employees a sense of responsibility and accomplishment, or to train them for high performance. Two Kennedy

School students have interviewed, for a paper they did, our own graduates two or three years into jobs in the federal government, compared with Harvard Business School students who had worked a similar period of time in Fortune 500 large corporations. One of their most dramatic finding was that those whose experience has been in corporations reported themselves as receiving far more mentoring and coaching from their immediate supervisors than did their counterparts in the federal government. Overall, there was a large level of dissatisfaction among the federal employees with the quality of their first-line supervision, compared with private-sector respondents.

Jobs that don't motivate and that don't inspire devotion to producing results discourage young people from joining government in the first place. And they let the public down by not producing the kind of excellent performance that people have a right to expect in exchange for their tax dollars.

Though most of these changes are beyond the reach of legislation, there are several roles for Congress. One would be to make clear in report language on the demonstration authority in S.129 that Congress intends to encourage agencies to use this authority to experiment with various techniques for reducing bureaucracy and empowering employees. Congress should also direct OPM to study and make recommendations on some of these issues. For example, I would urge you to direct OPM to do so with regard to improving first-line supervision in government. I would also urge that you request that OPM establish a Presidential Management Intern Advisory Council, consisting of PMI's and a subset of members of the President's Management Council, to provide ongoing recommendations from our talented young people in government to senior political officials about ideas for improving government jobs, as well as a

sounding board for reacting to ideas others have developed about improving job quality. And continued congressional support for use of performance measures in the management of government programs in the context of the Government Performance and Results Act – and not simply as a paper shuffling exercise – is a crucial feature of workforce management for results, even if it's not normally put into a "workforce reform" box.

And, as I stated in testimony on this issue last year, we must never forget the Hippocratic injunction – "first, do no harm." Probably one of the biggest sources of counterproductive agency practices that create excessive rules and hierarchy, and that discourage and demotivate federal employees, is the "management by scandal" that much current congressional oversight activity encourages. As elected officials, you need to remember that every time the pursuit of scandal creates more bureaucracy in government, you are diminishing the attractiveness of government service and hence the government's ability to deliver results.

My student, Amy Dain, describes what she's looking for in a federal job as follows:

> I'm looking for a job where I will be able to learn; where I'll be challenged; where I'll find mentors who will show me the ropes, introduce me to decisionmakers, and open up doors and opportunities for me; where I'll be able to work in a team to seek solutions to complicated problems; where I'll be supported in taking risks; where I will have a sense of making a meaningful contribution to issues I find important and relevant; and where I'll find a warm community.

Let's work towards a situation where she won't be disappointed.

PARTNERSHIP FOR PUBLIC SERVICE

Testimony of

Max Stier
President and CEO
Partnership for Public Service

Before the

Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia
Committee on Governmental Affairs
United States Senate

and the

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

on

The Human Capital Challenge: Offering Solutions and Delivering Results

April 8, 2003

Chairman Voinovich, Chairwoman Davis, Senator Durbin and Congressman Davis, thank you very much for giving me the opportunity to appear before your two Subcommittees today on the human capital challenges facing the federal government. I am Max Stier, President and CEO of a relatively new nonprofit organization dedicated to revitalizing the federal civil service: the Partnership for Public Service.

The Partnership was founded in response to a sense of urgent alarm about the workforce management difficulties the government is facing and will continue to face. The fact that has received the most prominent attention is that 50 percent of the federal workforce and 70 percent of our Senior Executive Service may soon reach retirement age. As daunting as those succession challenges are, the true crisis is taking place more slowly and less visibly. Simply put, many government organizations are failing to deliver the results of which they should be capable.

The root cause of this unrealized potential is that insufficient attention is being paid by agency leaders to the hard work of planning for future staffing needs, recruiting and selecting the right people, administering effective performance management systems and otherwise fostering a high-performing workplace culture that nurtures and supports the incredible dedication and commitment that our public service already exemplifies. The silver lining here is that continued and focused commitment to successful workforce management practices yields enormous returns in organizational effectiveness that pay back the initial resource investment many times over. Your ongoing oversight of federal human capital practices is needed, and will contribute mightily to improving government performance for the American people.

I would like to devote my time before you to outlining how the Partnership views the key human capital challenges facing the government and to tell you about the strategies that we have used to try to fashion programs to address those issues. I sincerely hope that the lessons learned by the Partnership on the ground in implementing these programs will inform similar programmatic initiatives on the part of the federal government to improve perceptions of public service, the effectiveness of government recruiting and the quality and effectiveness of the next generation of government managers. In addition, we would like to offer some specific recommendations with regard to the legislative proposals being discussed by your Subcommittees this morning.

The first major difficulty the government faces when it seeks to acquire the talent and expertise that it needs to accomplish its mission is a widespread lack of interest in federal employment. Interestingly, our polling revealed that this disinclination to federal employment is not rooted in a lack of interest in public service. To the contrary, young people today more than ever express a desire to assist their community and to make a difference through their work. For the most part, these potential employees are not rejecting federal jobs; they never even get to hear about them. The private and the non-profit sector do a much better job at communicating with their targeted talent pools about the opportunities and rewards that exist within their respective sectors. In many ways, the federal government just never gets in the ring in the war for talent.

To begin to effect change in this area, the Partnership appealed to college and university presidents across the country to join our Call to Serve initiative by committing to undertake a series of educational efforts, in partnership with the Office of Personnel Management and other federal agencies, to improve their students' understanding of the

opportunities and rewards of federal service. Over 400 schools, including members of the Ivy League, prominent state systems, Hispanic-serving institutions and historically black colleges, joined the Call to Serve initiative. We have been partnering with these schools to sponsor forums and speakers where students can hear first-hand from people they can identify with about what it is like to work to make a difference in the federal government. In support of this initiative, we have produced a series of publications, including *Red, White and Blue Jobs,* that provide helpful tips about where to look for federal jobs, what federal jobs might match a particular educational background, and how to apply. The response has been extremely positive from career service centers across the country who have been starving for this kind of information to share with students.

One of the key lessons we have learned from the Call to Serve experience is that the important work of relationship-building between the federal government and college campuses had effectively ceased for many federal agencies over the past decade. Rebuilding these relationships is critical to the government's future recruiting success. Even if college graduates do not go directly into a federal job upon graduation, the exposure to information about federal employment opportunities colors their future perceptions and decision-making at subsequent decision points in their careers. The government, in other words, will at least have gotten its foot in the door.

At the same time, the government's succession problems are so acute that they cannot possibly be satisfied solely by hiring entry-level employees. The pipeline has some serious talent gaps among its mid-level employees. Government will increasingly need to bring into the federal service persons who had not previously worked for the government and who have already acquired substantial professional or managerial

experience. Deciding how best to reach out to these key pockets of talent is a job that each agency must undertake as part of its strategic workforce planning – a task that we hope will be greatly facilitated by the pending appointments of Chief Human Capital Officers, which were created by legislation introduced by Senator Voinovich and passed by Congress last year.

At the same time, however, there are some systemic obstacles to bringing mid-career talent into the government that Congress should consider addressing. In a report on this topic issued last year by the Partnership, we noted that federal managers all too often decline to seek candidates from outside the government. For instance, in FY2001, there were 48,000 vacancy announcements at the mid-career (GS12-15) level, but only 53 percent of them were open to external applicants. In some cases, the reluctance to hire outside the government was driven by a desire to avoid the restrictive procedural requirements that accompanied posting jobs open to the public at large, such as the Rule of Three. That restriction, however, has been supplanted by the category ranking system authorized by Congress last year. I would encourage this Committee to continue to monitor the percentage of jobs open to competition from outside government and to press Chief Human Capital Officers on the question of whether they are using their newly-granted flexibilities in a way that maximizes the talent pool available to them.

Another recommendation made by the Partnership was the establishment of a Fellows program, modeled on the successful Presidential Management Intern (PMI) program, to serve as a vehicle for mid-level intake. The purpose of the program – which would also be open to current federal employees – would be to attract experienced workers to the federal civil service and to identify and retain high-performing federal

workers. By opening the process to both federal and non-federal applicants, the government preserves the value of truly fair and open competition, and avoids the appearance of denying its employees advancement opportunities. Fellows would enjoy a series of unique training and development opportunities over a two-year period. We continue to believe that such a government-wide developmental program could be a key complement to individual agency efforts to recruit needed mid-career talent and to give incumbent high-performing employees a clearer sense of their career progression potential.

These targeted recruitment efforts, however, can only expect to be successful in a broader public climate where public service generally, and federal employment specifically, is seen as a valued and worthwhile occupational endeavor. Although effecting long-term changes in public opinion is a formidable task, there should be little debate that the goal of a quality federal workforce is important enough to justify a sustained federal commitment to better outreach and communications to our citizens about the valuable service that our federal employees perform for this country each day. The Partnership has discovered that by leveraging its own limited resources to create outlets for inspiring stories about public service, it can lay the groundwork for meaningful changes in attitudes toward federal employment. Two examples of these kinds of programs are our on-line partnerships and our Service to America medals program.

The Partnership has collaborated with the largest on-line recruiting company, Monster.com, and more recently with HotJobs, to create spaces on these very well-traveled pieces of Internet real estate where job seekers can go to learn about federal

employment opportunities and, most importantly, to read profiles of current federal employees who have found personal reward and satisfaction through their accomplishments in service to our nation. There are two key insights that we have gained through these partnerships that are relevant to your Subcommittees' deliberations. First, the Subcommittees should have every confidence that a dedicated communications campaign about federal employment will find a ready and receptive audience. As part of our partnership with Monster we produce a weekly e-newsletter devoted to stories about federal jobs. Within just a few months, nearly 70,000 visitors have signed up to receive this newsletter, which gives it the second-largest subscriber base of any of Monster's industry-specific newsletters. Even more remarkably, the percentage of people who actually read the newsletter that arrives in their inbox is 68 percent, which is twice the "read rate" of its nearest competitor. The point here is simply that there is a real appetite for information about federal jobs.

The second insight that we have learned from these partnerships is that the most effective strategy is to target messages about federal employment opportunities into those spaces where people are already looking for information about employment opportunities in general. The federal government has too often been passive in its recruitment efforts and assumed that job seekers would come to the government. That is no longer a safe assumption in an increasingly competitive labor market. Each federal agency has to decide how best to reach its target audiences, but we believe that the increasing use of online recruiting capabilities will be key to success in this area.

The Partnership's Service to America Medals program, established jointly with *Government Executive*, *Atlantic Monthly* and *National Journal*, is another good example

of how the simple act of recognizing extraordinary accomplishments in the federal sector can become a powerful tool for communicating the worth of public service to the public at large and shattering negative stereotypes that impede effective recruitment. The awardees at last year's inaugural awards ceremony included the two FBI agents who finally closed the 40-year old Birmingham church bombing case, a Customs agent who created new ways to prevent illegal drugs from crossing US borders, a physicist who founded a government institute that eventually produced several Nobel laureates, and a Coast Guard employee who evacuated thousands in the September 11th attacks. The government does offer its own recognition for exemplary service, but does not do enough to ensure that the rest of America hears and understands the contributions these people are making. There are few more powerful recruitment tools.

Another Partnership initiative that attempts to maximize the government's effectiveness as a recruiter is S. 512 and H.R. 1056, the GOFEDS legislation introduced by Senator Voinovich along with such co-sponsors as Senator Durbin and Senator Akaka, and in the House by Representative Tom Davis, and Representatives Waxman, Tierney and Davis of Illinois. This legislation would exclude loan repayment incentives from an employee's income for income tax purposes. Currently, if an agency offers to repay part of a student loan for a highly talented applicant that it is seeking to recruit, that applicant will have to pay taxes on the amount repaid on his behalf, even though he or she has received no money directly from the government. GOFEDS would increase the effectiveness of loan repayments as a recruitment incentive and encourage greater use of these incentives government-wide. For some occupational groups, educational debt is one of the biggest disincentives to public service. As the Partnership concluded in a

recent report on this subject, two-thirds of law students would not consider a job in public-interest or government service because the salaries are too low to pay their law-school debts. Clearly, legislative efforts need to be targeted at this increasingly significant barrier.

Many things can be done, and are being done, to improve government recruitment, but all too frequently the job-seeker who is persuaded to pursue a federal employment opportunity stumbles on the second major barrier to public service: the federal application and hiring process. It is difficult to overstate how negatively this process impacts on the government's ability to competitively hire the talent it needs. Jobs are posted through "vacancy announcements" that contain impenetrable jumbles of government jargon that do a poor job of describing or "selling" the positive aspects of the job being advertised. Once the vacancy announcement is deciphered, the process of applying is slow, difficult and confusing. Recent polls show that many job seekers are unwilling to wait more than a few weeks for a prospective employer to make a hiring decision, while the government process can easily take six to nine months or even longer. During the time that the application is wending its way through the agency, there is little or no communication with applicants about their status, leaving them essentially in the dark about their prospects or the timing of a decision.

Much of this time is spent complying with merit processes that have become so difficult to navigate that they are undermining the key merit principle of allowing the government to select the best-qualified person for the job. The Partnership has partnered with the Office of Personnel Management to articulate a "Pledge to Applicants" that identifies the key indices of customer satisfaction that the application process should

strive to improve. OPM Director Kay Coles James is taking important steps toward fulfilling that pledge through her ongoing work on improving the government's USAJOBS website and that effort deserves this committee's full support. More generally, we believe that the number of hiring authorities needs to be drastically simplified to create a more understandable system for job-seekers and government managers alike.

One of the best existing ways to avoid these procedural knots in hiring new talent is to exercise the authority to "convert" internship positions to permanent positions, thus turning the incumbent intern who has proven their capabilities "on the job" into a federal employee without the necessity of a lengthy hiring process. Unfortunately, the federal government does not do enough to utilize the ability of internship programs to supplement recruitment initiatives. Even among those students who are eligible for non-competitive conversion to permanent employment upon successful completion of their internships, only about 13 to 17 percent a year receive and accept federal job offers—versus more than 35 percent of interns in the private sector who accept jobs with the companies for which they interned. In a report issued last year, the Partnership outlined several ways that internship programs that provide conversion opportunities could be expanded in ways that would improve both recruitment and diversity hiring.

Once the sale is closed and the employee is brought on board, the real challenges begin. People seek public service as a way to contribute to their country and look forward to working with a "high performing team." But, many of our agencies struggle to perform. We believe that effective human capital management is the critical success factor in agency performance. Much of the dialogue about human capital management

over the last year has focused on changing the compensation system and pay for performance. While we believe that all federal agencies should move toward more performance-driven pay and promotion systems, none of that can happen without effective leadership and organizational readiness.

We need leaders who have the competencies to build and sustain high-performing work environments. They need to understand how to manage highly complex and ever changing organizations; how to enable employees to achieve their very best; how to remove the organizational barriers to success and do all this in an environment that is transparent and responsive to the American public.

The recent government-wide survey results released by OPM confirmed that the federal workforce is deeply concerned about the quality of their management and leadership. Only 36 percent of federal employees agree that their leaders generate "high levels of motivation and commitment." Further, only 43 percent hold their leaders in high regard. These deep-rooted skepticisms can only be overcome by a top-down commitment from agency leaders to the importance of selecting and developing managerial and executive talent.

The issue of organizational readiness has not been fully addressed in the debate about compensation and other civil service reforms. In order for federal agencies to succeed in human capital management and, more specifically, performance management, they must have created an effective management infrastructure. Very few federal agencies are there. During the course of the next year, we would like to see much more discussion about providing the right incentives for federal agencies to address their "systems" as a pre-requisite for moving to new pay systems and HR programs. Those

incentives must include funding for creating that infrastructure, measurement of an agency's current position and progress and then the ability to adopt new and flexible HR programs.

To evaluate organizational readiness and progress, the Partnership recommends that Congress consider requiring each agency to undertake regular employee surveys to help them gauge their success in producing high-performing workplaces. The government-wide survey conducted by OPM this year is a valuable effort that has produced a wealth of information that agency leaders can use to fashion appropriate workplace strategies. While each agency should have the flexibility to design surveys that fit their unique organizational missions, the Partnership believes that there is a core set of questions centering around employee satisfaction and quality of management that could usefully be posed government-wide to provide points of comparison.

As Congress and the Administration seek to take those actions needed to provide a high performing work environment within the federal government, we strongly recommend that a focus on senior management and leadership reforms be a priority. Providing the deeply felt culture shift that is needed in the work environment in many of our federal agencies may also require a period of "culture shock" for many organizations with regard to development of a stronger link between performance management systems and compensation practices. If we are going to attempt to do a better job of holding employees accountable for results that matter and recognizing those who do an especially good job of achieving those results, it sends the right message to start at the top with our senior executives.

It is clear that the federal government's ability to recruit and retain highly qualified senior executives in any number of critical jobs has suffered as a result of pay compression and the inability within the existing system to adequately reward the truly stellar performers. The proposed bill, S. 768, the "Senior Executive Service Reform Act of 2003," is a useful starting point with regard to the problem of pay compression since it would significantly raise the pay cap for a number of senior level positions within the executive branch. Equally important, however, the proposed bill also recognizes that the issue is not simply paying senior executives more, but also clearly tying any pay adjustments to valid assessments of their actual performance and results achieved. Making higher pay conditional on the ability to establish a clear link to senior executive performance is critical.

One issue that is not currently on the table but which we believe should be with regard to the Senior Executive Service is the fact that not only are all executives not equal with regard to performance and results achieved, but not all of the approximately 7,000 senior executive positions are equal in terms of the need for the exercise of managerial or executive competencies. There are positions currently in the SES which are appropriately compensated at the senior executive pay level but based on the fact that the individuals in those positions are truly experts in their field and critical to maintenance of needed intellectual capital within their organizations. Unfortunately, many of these technical experts are also asked to assume managerial responsibilities solely to justify their compensation level when, in fact, they may have little or no aptitude for management. Managers should be chosen for managerial ability, not technical expertise.

While there are provisions in the proposed "Senior Executive Service Reform Act of 2003" that would also raise the pay cap for individuals at senior pay levels in scientific and professional positions (ST) and for those in senior level (SL) positions, that will still not address the problem of having some members of the SES who are not well equipped to function as generalist managers, but who still provide valuable technical or program area expertise of a very high order. It is time to seriously consider creating a separate track for this type of talent. Two years ago, for example, the Internal Revenue Service used their unique legislative authority to divide their SES staff into a Senior Professional Corps for top-level but non-managerial positions while maintaining a Senior Executive Corps for career officials who are truly needed to exercise high level leadership and management. We think it is time to expand this concept more widely. Care must be taken, however, to ensure that individuals who provide valuable service to their organizations in non-managerial roles do not become "second class" citizens, but rather are recognized and rewarded for the critical role they play.

In closing, I would like to address one of the most enduring systemic weaknesses that has plagued successful government workforce management over the last twenty years: the failure to commit adequate resources to the development and management of a world-class civil service. Too often, for example, budgets for employee training and executive development have given way to other programmatic priorities. Programs are only as good or effective as the people who run them. Without a sufficient commitment to employee development and training opportunities, it is difficult to build and sustain employee loyalty and commitment, not to mention high organizational performance.

The same observation is equally valid for many of the human capital flexibilities now on the books – a paucity of resources precludes them from being meaningful tools. Whether it is the authority to repay student loans or the enhanced recruitment, retention, relocation authorities proposed in S. 129, a vital ingredient to success will be the commitment of adequate resources. We urge Congress in making the difficult budgetary choices before it to be mindful of the fact that the workforce challenges we face cannot be successfully managed without committing the necessary resources. Follow the lead of private sector companies who have increasingly come to realize that success in workforce management feeds success in every other area of organizational activity. In the long run, the returns to the American public will be significant and long-lasting. Thank you.

THE WINDOW OF OPPORTUNITY

Jeff Taylor
Founder and Chairman
Monster

It is my pleasure to testify before the Senate Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia and the House Subcommittee on Civil Service and Agency Organization about the human capital crisis that faces the Federal Government.

In recent months, headlines across the country continue to bring to light the serious human capital crisis in Government. Below are just a few examples:

> "Staff shortage called threat to NASA" - *Houston Chronicle*, TX, March 12, 2003
> (Story highlight: Only 6 percent of its 18,000 workers are younger than 30)
>
> "Pentagon seeks tech-savvy workers" – *Government Executive*, March 31, 2003
> (Story highlight: "Creating a larger pool of science and engineering-savvy workers to chose from is a top priority in the Defense Department").
>
> "SEC needs more money, better personnel". – *USA Today*, January 16, 2003
> (Story highlight: Attorneys, accountants and examiner continue to leave the SEC)

As people familiar with this crisis are well aware, more than half (53 percent) of the 1.8 million employees that currently comprise the Federal workforce may be eligible to retire in the next five years. Additionally, the average Federal employee is 45 years old, and more than half the Government workforce is between 45 and 69 years old.

The challenges and the demographic statistics of this crisis are substantial. We are here at a crossroads, as the window of opportunity for the Government on the recruiting front is closing fast. The current abundance of available candidates is a momentary event that will soon disappear - even more so given the current recruiting branding and tactics of the Federal Government. The time is now to take the proper steps to address the Federal Government's human capital crisis. We do not feel this crisis yet, but it is inevitable and will be quite serious unless the Government moves quickly by putting in place the right system that will bring qualified job applicants to the public sector.

Although the human capital crisis has been many years in the making, much of what constitutes the shortage and the problems associated with it can be best understood by examining the American economy beginning in 1999.

1999 was the height of the technology boom and the rise of the dot-com frenzy. The private sector ruled – fueled by unprecedented venture capital and high IPO's making people instant millionaires. We experienced rapid pay acceleration, and stock options offered as a huge employment incentive and treated like a new form of currency. The nation's unemployment rate reached a 30-year low at 3.9%,

as the landscape of the workplace and its reality were changing. 1999 marked the beginning of a permanent shift of the balance of power **from the employer to the job seeker**.

Then came the first half of 2001. The dot-com bubble burst which triggered significant layoffs across the country, and the unemployment rate began to gradually escalate over the next 18 months. However, despite the decrease in the technology world, the Internet continued to grow and weave itself into our everyday lives on a global scale.

A few months later on September 11, 2001, the terrorist attacks occurred in our country. This caused the "Pride in America" sentiment to start to grow significantly. Our country was still in the midst of a recession, but there was a feeling of pride in America's resilience. The days, weeks, and months following the attacks brought a huge increase in sales of American flags, as citizens proudly waved them on their cars, in their homes, and on storefronts.

This brings us to today. We are at 6% unemployment and 8.5 million Americans are out of work. Government has passed legislation to extend the unemployment benefits for millions of Americans given the tough job market and long job-search cycles. The shift of power has once again swung back to the employer — salary increases have settled down, and the attitude toward stock options has become realistic again. But the shift of power is a temporary one, and it will soon be back in the job seekers favor for the balance of this decade.

The extraordinary growth of the late 1990's was the factor behind the job seeker power during the dot-com boom as well as the current tight job market. The Internet is the biggest invention of the last half of the 20th century and it caused a great amount of ingenuity and innovation; however, it also caused ideas without the backing of realistic business models, which ultimately caused the current correction in the technology industry. Technology will rebound as will the economy, and job seekers will regain the power they once had in 1999. This is the time when it is critical that the government address its own recruitment shortcomings.

During the dot-com boom, job seekers were attracted in great numbers to the private sector. Escalating salaries and stock options brought the possibility of wealth for many employees. The incentives worked for the private sector. The theory behind the recruitment success of the private sector also needs to be applied to the public sector, so that the Federal Government can effectively compete for the talented people during the next decade and beyond. All levels of government need to work together in this area to ensure and help drive the continued advancement and security of the United States.

Job seekers are interested in employment in the Federal Government. In a recent poll of 51,000 Monster job seekers, 80% indicated they would be interested in working for the Federal Government, while 86% of the MonsterTRAK college student population indicated the same interest. Perhaps it's a sign of the tight job market or the security offered with employment in Government. Nevertheless, the interest from seekers needs to be transformed into sustained growth in applications for Government jobs. Job candidates have a open mind about opportunities in the current market – now is the time to seize the moment and prove to job seekers across the nation what the public sector offers in terms of great job opportunities and truly market these opportunities to job seekers.

Though offering stock options and other such private sector perks are certainly not an option for Government agencies, the Federal Government has been making some excellent progress and has the opportunity to capitalize on several opportunities to help brand itself as a good employer:

- The solidity and stability of Government positions.
- The guarantee of strong pension benefits, which alleviates concern about retirement.
- A renewed sense of pride in serving our country since September 11th and the war in Iraq.
- New high-profile initiatives such as Department of Homeland Security.

The Internet has become a mass media; it's information-rich. It's also comparatively inexpensive to distribute information, and the fast adoption rate of the target audience is a positive. We also must not forget that the Internet was born from the U.S. Government. The Internet was created to establish a decentralized network among U.S. Government defense agencies and strategic command posts. **It's time to bring it back home** - The government has to fully embrace its technology in all of their communications and recruiting and transform their image as a slow-moving employer.

The Government has had some high visibility recruitment successes recently that it can use as a core foundation to build upon. One example in particular in the past year that highlighted the potential for the Government in online recruiting was the large task of recruiting baggage screeners for the TSA. Utilizing Monster, they experienced over six million page views and 1.7 million applications for the baggage screener positions. Of those, 418,908 applicants scheduled for assessments. Of those, 61,292 offered jobs, and 66,000 were placed in the ready pool. On a smaller scale, Monster is also currently assisting the Air Force to find nurses, doctors, and engineers, and working with the INS to locate agents in outlying areas of Montana, Minnesota and North Dakota.

So while some things are certainly moving in the right direction to allow the Federal Government to capitalize on the human capital window of opportunity, there are still some major challenges that must be overcome. The demographics surrounding the aging workforce are real and will not go away. So while less federal staff retired in 2002 than was originally predicted, this only delays the inevitable shortage.

I believe the single biggest challenge the government has to overcome is the **way that it recruits and the culture of the people doing the recruiting!** Based on the work that Monster is doing with various federal agencies, there are numerous inherent barriers to taking advantage of the window that is open and recruiting the best talent from the private sector.

Let me demonstrate just a few of these:

1. Your job descriptions – What in Government terms you call a vacancy announcement. Here is a job description from the private sector.

   Now let me show you a typical government job description.

2. If that doesn't put you off, then perhaps submitting yourself to an on-screen barrage of over 100 questions should do the trick.

3. Now if you happen to make it through the screening, then you are greeted with convoluted resume builders that can be up to 39 pages in length.

A few other facts - only 30 percent of Government agencies do not accept electronic applications, only mailed resumes. Government employers have to make their vacancy announcements visible, describe the positions in brief & interesting terms, and allows seekers to apply online and speed up the response process. Today's Internet-savvy generation, which conducts travel arrangements, shops, and pays bills online, will not take the time to mail a letter to get a job. If the government is truly interested in finding the best, brightest, and most diverse group of entry-level candidates from the private sector for open positions, they must market to them in right places and in the right way.

The recruiting process is clearly broken within the Federal Government, and it must be changed to avoid drastic problems in the Government structure and its abilities in the future. Monster is currently working closely with the Office of Personnel Management to bring the high level of online recruitment tools from Monster into the Government, but this is still just the tip of the iceberg. Many agencies still have no staffing automation systems, which often result in lengthy hiring cycles of 4 – 6 months or more. To compete against the private sector, the ease of use and the hiring cycle needs to improve exponentially to make employment an attractive option for the millions of talented job candidates in the United States.

In addition, many agencies and departments of the government have no idea on how to actually build a branding campaign to attract top talent. Effective branding is a big part of effective recruiting. To reach a majority of the target audience, Government agencies must do more than just post a vacancy announcement on USAJOBS. It is crucial that the Federal Government as a whole and all the agencies brand themselves as a great employer that will provide employees growth opportunities, will foster security, and will provide them the ability to produce meaningful work that will help propel the country in this new century. The result will be a higher level of talent in the Government, great ideas, increased productivity, and an America that will continue to lead the world in growth and prosperity in the 21st century.

I firmly believe that the Government's window of opportunity that presents itself today will close, and we will be faced with the worst labor shortage in our nation's history. But the impact can be lessened if the correct actions are taken. There is a set of fundamental demographics that impact the broader labor market (similar to the demographics that have bought on this impending human capital crisis in government). As the baby boomers retire from the workforce at a greater rate than they are being replaced, we will see unemployment drop. Economists are also predicting that unemployment will drop to 4% by 2010, the same level that existed at the height of the dot.com frenzy. The Bureau of Labor has stated that in 2010, 10 million jobs will go unfilled. That is a frightening statistic.

The four factors that I feel will be at the forefront of what I predict will be the worst labor shortage in our lifetimes are:

1. Substantial baby boomer exit
2. Employee tenure shortening
3. Broadened skill shortages
4. The transition from e-commerce to e-business (companies will need to retool, retrain, and recruit)

These are many of the things that the public sector needs to be aware of, as the private sector regains competition for talent. The talent war for employees will be coming again, and success of the Federal Government and our country depends on us being effective in this different type of war.

Finally, I would like to end today with two questions to ponder:

1. How will the government fair in this competitive labor market of tomorrow if it does not fundamentally change its approach to human capital management today?

2. What changes need to happen immediately within the government to take advantage of the current window of opportunity before it closes and job seekers regain control in a Free Agent World?

Statement of

MG Robert A. McIntosh, USAFR (Ret.)

Executive Director

Reserve Officers Association of the United States

for the

The Senate Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia

and

The House Subcommittee on Civil Service and Agency Organization

concerning

The Human Capital Challenge: Offering Solutions and Delivering Results

Tuesday, April 8, 2003

Reserve Officers Association

1 Constitution Ave., N.E.

Washington, DC 20002-5655

(202) 646-7715

Chairman Voinovich and Chairwoman Davis,

It is a pleasure and an honor to be here today representing the nearly 80,00 members of the Reserve Officers Association of the United States. ROA was founded in 1922 and chartered by Congress in 1950. We are charged by our charter to "support and promote the development and execution of a military policy for the United States that will provide adequate national security."

Today, nearly 220,000 members of the Reserve Armed Forces have been mobilized in support of Operation Iraq Freedom. Since September 11, 2001, more than a quarter-million citizen-soldiers, sailors, Marines, and airmen have been called to active duty and have left their homes, families, and communities in response to emerging contingencies. By the General Accounting Office's estimate, during Operation Desert Shield/Desert Storm, 41 percent of the activated reservists lost money when their civilian paycheck was compared to their military salary (including the tax advantages of various benefits and allowances). Applying this percentage to today's activated population suggests that nearly 90,000 troops, a hefty slice of our Total Force assets in Operation Iraqi Freedom are being wounded financially before they even see the enemy they came to fight. The situation is bad and it can only get worse when you consider that Iraq will very likely take several years to be rebuilt, that the Reserve components will probably be supervising at least some project, and that if recent history is any guide, such occasions will continue.

If we are serious about the societal benefits of the Total Force policy and the popular support it brings to any military undertaking, we need to reinforce it in every way possible. We cannot allow the compensation aspects of the system to drift so far off center that fully a third or more of its Reserve component members become economically dysfunctional merely by putting on their uniforms. Bankruptcy is not an effective recruiting or retention tool. With all of the other more immediate (and less tractable) issues mobilized reservists must face, we should do all we can to eliminate or ameliorate financial insecurity caused by post-mobilization compensation dysfunction.

S 593, The Reservists Pay Security Act of 2003, is a significant step toward resolving this issue for a significant portion of the reservists who have been mobilized to support Operation Iraqi Freedom. The bill would entitle any employee of the federal government who takes leave without pay in order to perform service as a member of the uniformed services or as a member of the National Guard to receive civilian pay in the amount, which when taken together with his military pay, would be no less than the basic pay he would then be receiving if no interruption in his civilian employment had occurred. Simply put, the bill would ensure that at least financially, no harm would be done to a mobilized federal employee.

There are approximately 120,000 federal employees who serve as members of the Reserve components; a significant number of these, between 12,000 and 13,000, are currently mobilized. As we noted above, there will be more reservists and Guardsmen activated over time in this contingency operation, and this will not be the last contingency operation. More importantly,

however, this bill is an opportunity for the federal government to lead the way and to set the example for other employers of members of the Guard and reserves. There are already many employers, city, state, and private, who pay all or some part of the difference between their employees' civilian salaries and their military compensation. The Reserve Officers Association has for some years now maintained a list of employers who "do the right thing," by their employees who are Guardsmen and reservists. The list is available on our web site (www.roa.org). I recommend it to your attention. It makes interesting reading.

If we are to encourage employers to help protect their employees' financial wellbeing when they are serving their country, the federal government must lead the way and set the example. If the federal government does not do the right thing, what kind of a message does it send to those employers whose connection is more tenuous? The federal government, whose actions in this regard can only be legislated, must lead by example and encourage the private sector to do what cannot and ought not to be legislated. There is more to this issue than federal mobilized employees and their families, but we must start here, now, at home as it were. This provision is a first step in demonstrating in a practical and meaningful way that the contributions of our citizen-soldiers, sailors, Marines, and airman are fully recognized and appreciated by the nation.

Finally, it is worthwhile recalling why this legislation is so important to the nation at this time. We have entered a new and dangerous era, in which the demands of being a citizen-soldier are growing with each contingency. The key to our ability to respond to these contingencies is the availability of a trained and ready Reserve component force. When we put the financial wellbeing of our citizen-soldiers, sailors, Marines, and airmen and their families at risk routinely, we put the Reserve components at risk, and with them the Total Force. It is a fool's bargain -- penny-wise and pound-foolish.

There are many elements of a wartime mobilization that we cannot control or mitigate; undeserved financial hardship is one that we can control and obviate to a greater or lesser degree. Passage of S 593, The Reservists Pay Security Act of 2003, is an ideal beginning to the process.

TESTIMONY OF DANIEL J. FINNIGAN

SENIOR VICE PRESIDENT, YAHOO!

EXECUTIVE VICE PRESIDENT AND GENERAL MANAGER, HOTJOBS

BEFORE A JOINT HEARING OF THE SENATE SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL WORKFORCE AND THE DISTRICT OF COLUMBIA AND THE HOUSE SUBCOMMITTEE ON CIVIL SERVICE AND AGENCY ORGANIZATION

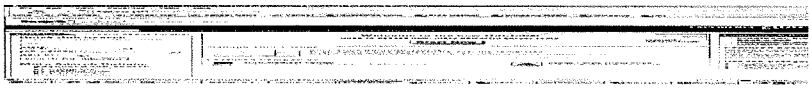
APRIL 8, 2003

Chairman Voinovich, Chairman Davis, Senator Durbin, and Congressman Davis, I appreciate the opportunity to present the views of HotJobs/Yahoo! on the human capital crisis facing the federal workforce. We specifically want to share our "lessons learned" from successfully delivering Internet recruiting services on behalf of both federal and commercial customers that we believe can help mitigate the federal human capital crisis.

HotJobs, a wholly owned subsidiary of Yahoo!, is the one of the leading industry Internet recruiting services. The combination of HotJobs and Yahoo! provides reach and access to job seeker candidates that no other industry player can compare with. With over 376 million registered North American users, Yahoo! opens doors to candidates that the United States government has not yet had access to. This is particularly valuable where unique and special skills are required, for agencies such as the National Security Agency, the United States Department of Agriculture, the Department of Defense and the Nuclear Regulatory Commission.

Reinvigorating the federal workforce involves issues related to both recruitment and retention. While we understand the importance of retention, our area of emphasis is on recruitment. The importance of recruitment was reflected in a recent OPM poll of the federal workforce, where 91% felt that their work was meaningful, which is a key retention criteria.

HotJobs/Yahoo! sees a unique and compelling opportunity to partner with the United States government and its agencies to use the multi-faceted benefits of working for the United States Government to attract the country's best and brightest, both at entry and mid-levels. We envision a return to the federal hiring bonanza that occurred in the 1950s, where working for the United States government wasn't burdened with the often false stigmas it faces today, rather an emphasis on the positives, such as:



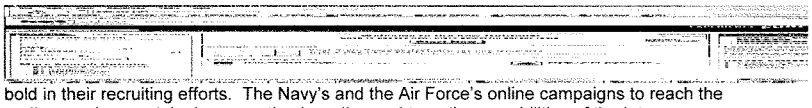
- The United States Government is the Fortune 1 company in the country and won't go out of business, especially in light of the unevenness of the economy in the last two years.
- Excellent career path choices, including the ability to transfer between agencies while retaining all benefits due to the size of the "company"
- Outstanding benefits, including retirement, regular increases and country-wide, legal trend-setting family flexibility

The unique opportunity to perform public service, do interesting work and express one's sense of patriotism each and every day is a very compelling recruitment proposition. HotJobs/Yahoo! believes that the solution to this workforce crisis requires more than a "one size fits all" solution. Our experience suggests that federal agencies have unique requirements that in some cases benefit from recruiting solutions customized to meet their particular hiring needs. We stand prepared to apply the best practices garnered from a similar crisis in the private sector in the late '90s to the federal arena, incorporating the intricacies and nuances that accompany federal agency hiring.

Please consider that Yahoo! reaches over seventy percent of all people who look for a job online and already has a track record with assisting the United States government with recruitment. The weekly reach of Yahoo exceeds that of many of the top Sunday newspapers in the country in their given markets. Yahoo! is playing the new role of being the daily information source of millions of Americans, especially for the entry level positions within the United States government.

With Yahoo's access to almost twenty eight million healthcare professionals, approximately sixty one million technology professionals, thirty one million financial service professionals and over twenty four million engineering professionals, we have helped agencies like the Postal Service, the Navy and the Air Force lower their cost per hire and speed their time to hire significantly. As you are aware, extended time to hire is currently a known recruitment impediment for the federal government. Each agency started with a pilot to test the effectiveness of Internet recruiting as a small percentage of their recruiting budgets. Each agency experienced costs per hire that rival the private sector, in most cases all under $1000 per hire and as a result of the effectiveness of their Internet recruiting campaigns, these agencies have in some cases tripled their respective Internet recruiting allowances.

That said, Internet recruiting involves more than posting a job on the Internet, creating electronic application filing processes and shortening vacancy announcements. These agencies are also incorporating the art of branding themselves as employers of choice. Consider the recruitment targets the Navy and Air Force have, the majority of whom are pooled from the workforce outside the United States government. By necessity, they have learned to be aggressive and



bold in their recruiting efforts. The Navy's and the Air Force's online campaigns to reach the audiences they seek by incorporating branding and targeting capabilities of the Internet, specifically by Yahoo! with its number one audience reach, have helped them continue to keep their recruitment pipeline full. These efforts are particularly visible in times of national and international crises, where we are exposed to the excellent talent they are able to attract.

HotJobs is presently working with a number of federal agencies to bring the Fortune 1 United States government jobs to the general public. As a finalist in the OPM Recruitment One Stop project, we believe that the solution to this pending problem lies in the best practices across the industry, not just those from one vendor.

We look forward to working with both the House and Senate Committees overseeing the federal workforce issue, as well as the Office of Personnel Management and the Partnership for Public Service to address the challenges and potential solutions discussed in my testimony.

HotJobs/Yahoo! appreciates the opportunity to present this testimony and to share our thoughts on how the Internet can be used to strengthen the United States government's recruiting capabilities.

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RESPONSES TO QUESTIONS FOR THE RECORD FROM DAVID M. WALKER

Comptroller General
of the United States

United States General Accounting Office
Washington, DC 20548

May 22, 2003

The Honorable George V. Voinovich
Chairman
The Honorable Richard J. Durbin
Ranking Minority Member
Subcommittee on Oversight of Government Management,
the Federal Workforce, and the District of Columbia
Committee on Governmental Affairs
United States Senate

The Honorable Jo Ann Davis
Chairwoman
The Honorable Danny Davis
Ranking Minority Member
Subcommittee on Civil Service and Agency Organization
Committee on Government Reform
House of Representatives

Subject: *Posthearing Questions Related to Strategic Human Capital Management*

On April 8, I testified before your Subcommittees at a hearing on "The Human Capital Challenge: Offering Solutions and Delivering Results".[1] This letter responds to requests from Chairman Voinovich, Chairwoman Davis, and Senator Carper that I provide answers to follow-up questions from the hearing. The questions, along with my responses, follow.

Questions from Chairman Voinovich

1. In your testimony, you discuss the need to preserve and share an agency's institutional knowledge in light of the impending retirement wave by using various means of "phased retirement." Proposed in my Federal Workforce Flexibility Act are provisions to make it more desirable for individuals to work part-time at the end of their career. What other options might Congress consider to ease this transition?

There are a variety of options that should be considered; however, they all require further analysis to ensure they would be cost-effective in retaining the institutional knowledge of key employees as they approach and become eligible for retirement.

[1]U.S. General Accounting Office, *Human Capital: Building on the Current Momentum to Address High-Risk Issues*, GAO-03-637T (Washington, D.C.: Apr. 8, 2003).

For example, one option would be to allow retirement eligibles to continue working after retirement eligibility on a part-time basis and factor in that service when making pension calculations. However, for those employees who are under the Civil Service Retirement System, legislation would be needed to remove the so-called penalty on their retirement annuity for working part time. Another option would be to allow certain employees to retire and receive their annuity and continue to work part time for up to a stated period of time (e.g., 1 – 2 years) without a pension offset. Both of these options would help agencies address succession planning and knowledge transfer challenges. In all cases, however, Congress should consider placing certain criteria along with numerical or percentage of workforce caps on agencies' use of such authorities to prevent abuse.

2. GAO has been successful in implementing personnel reforms that clearly emphasize the importance of human capital. Part of your success has been achieved through GAO-specific legislation, but your agency also has been successful in implementing governmentwide reforms. Unfortunately, other agencies have not been as successful. As agencies begin to consider the governmentwide flexibilities included in last year's homeland security legislation, please discuss in a bit more detail how GAO has been successful in the past.

As noted in my statement for the hearing, we have reported on the capabilities that agencies need to have in place to effectively use the human capital flexibilities and authorities that Congress has provided.[2] Our own approach to the use of the authorities that Congress has provided us has been consistent with the practices of leading organizations, as shown in figure 1.

[2]U.S. General Accounting Office, *Human Capital: Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces*, GAO-03-2 (Washington, D.C.: Dec. 6, 2002).

Figure 1: Key Practices for Effective Use of Human Capital Flexibilities

Plan strategically and make targeted investments	• Obtain agency leadership commitment • Determine agency workforce needs using fact-based analysis • Develop strategies that employ appropriate flexibilities to meet workforce needs • Make appropriate funding available
Ensure stakeholder input in developing policies and procedures	• Engage the human capital office • Engage agency managers and supervisors • Involve employees and unions • Use input to establish clear, documented, and transparent policies and procedures
Educate managers and employees on the availability and use of flexibilities	• Train human capital staff • Educate agency managers and supervisors on existence and use of flexibilities • Inform employees of procedures and rights
Streamline and improve administrative processes	• Ascertain the source of existing requirements • Reevaluate administrative approval processes for greater efficiency • Replicate proven successes of others
Build transparency and accountability into the system	• Delegate authority to use flexibilities to appropriate levels within the agency • Hold managers and supervisors directly accountable • Apply policies and procedures consistently
Change the organizational culture	• Ensure involvement of senior human capital managers in key decision-making processes • Encourage greater acceptance of prudent risk taking and organizational change • Recognize differences in individual job performance and competencies

Source: GAO.

In our specific situation, we developed data-driven business cases to demonstrate the need for the authorities, how they would be used, and took steps to assure that safeguards were in place to ensure their proper and fair use. We also have involved our employees at all levels in the development and implementation of our human capital policies and programs to improve the quality of those policies and programs and build GAO-wide ownership for the changes we are making. Further, we have used our human capital initiatives as part of, and consistent with, broader efforts we have underway to instill a more results-oriented culture throughout GAO. Finally, we monitor and evaluate our efforts and publicly report on our use of the authorities both to assure our own accountability as well as to provide lessons for other agencies.

3. You have recommended the creation of a nonpolitical chief operating officer at federal agencies. While your roundtable discussion did not achieve consensus on the concept, it did lay out three "themes" that should be considered. Would you like to elaborate a bit more on these themes and what more Congress and agencies can do to facilitate this discussion?

GAO convened a roundtable on September 9, 2002, to discuss the Chief Operating Officer (COO) concept and how it might apply within selected federal departments and agencies as one strategy to address certain systemic federal governance and management challenges. We reported that there was general agreement that the following three themes provide a course for action.[3]

[3]U.S. General Accounting Office, *Highlights of a GAO Roundtable: The Chief Operating Officer Concept: A Potential Strategy To Address Federal Governance Challenges*, GAO-03-192SP (Washington, D.C.: Oct. 4, 2002).

- Elevate attention on management issues and transformational change.
- Integrate various key management and transformation efforts.
- Institutionalize accountability for addressing management issues and leading transformational change.

The participants also offered a number of ideas to help address agencies' management weaknesses and drive transformational change. First, while there is no "one size fits all" solution to address the challenges agencies face, the critical point is to craft an approach in each case that (1) sets responsibility and accountability for functional management issues and transformational change at an organizational level appropriate for the types of reforms that are needed and (2) creates integrated leadership responsibility in a single organizational position for key management functions such as human capital, financial management, information technology, acquisition sourcing strategies, and performance management as well as for transformational change initiatives, if appropriate.

Second, participants suggested that Congress should make clear in statute the broad responsibilities and qualifications for at least the senior official responsible for management and transformation. Congress has taken this general approach with other important management legislation, such as the Chief Financial Officers Act (CFO), which requires CFOs to "possess demonstrated ability in general management of, and knowledge of and extensive practical experience in financial management practices in large governmental or business entities" and clearly lays out the CFOs' responsibilities. By establishing the broad CFO responsibilities in statute, Congress created a number of important advantages: unambiguous expectations for the position, a professional approach, and an implicit set of qualification standards and expectations.

Third, participants also widely agreed that augmented accountability mechanisms are needed to help assure the success of key management and transformational change efforts. To help provide the continuing focused attention essential to successfully completing multiyear transformational change, the important role that congressional oversight has played and can play in fostering improvements was acknowledged at the forum. Likewise, public reporting, such as the annual performance plans and performance reports required by the Government Performance and Results Act and audited financial statements under the CFO Act, can provide useful information on agencies' progress in meeting goals and addressing mission-critical management challenges. The use of performance contracts for senior leaders was also recognized as being a potentially important mechanism for clarifying expectations, monitoring progress, and assessing accountability.

Questions from Chairwoman Davis

1. Far too often, when agency budgets are short, training is the first item cut. The world's top companies have a commitment to training because training helps ensure the skills and performance necessary for an organization to meet its goals. The Federal Workforce Flexibility Act, which was introduced by both Senator Voinovich and myself, enhances the institutional manner in which employees are trained in the federal government. How critical is

employee training to attract, retain and improve the performance of the federal workforce?

A strategically sound training and development program is critical to both building and retaining an effective federal workforce. Initiatives such as the Federal Workforce Flexibility Act that Chairwoman Davis and Chairman Voinovich have introduced are evidence that this area is beginning to receive the increased emphasis and attention it warrants.

A learning environment, with opportunities to update and enhance an individual's skills and competencies, is an attractive feature for prospective and new employees as well as for current and long-time employees. People want to work where they will be able to continue to learn and grow as they develop their careers. As in the private sector, effective training and development opportunities are an important element in the package that the federal government needs to be able to offer in the "war for talent." Once employees are onboard, strategic training and development efforts can help ensure that, as part of succession planning, new leaders are developed and ready to take on new roles and assume greater responsibilities.

Training and development opportunities are also a tangible example of the need to invest in human capital, both in terms of time and budgetary resources. The Federal Workforce Flexibility Act calls for agencies to evaluate their training programs and plans to ensure that they are linked to strategic and performance goals and contribute to achieving the agency's mission. This is a key step in making a business case and demonstrating that training and development efforts, like other strategic human capital management investments, are a vital and integrated part of agencies' ability to marshal, manage, and maintain the human capital needed to maximize government performance and assure its accountability.

2. At our hearing on April 1, we talked about the crucial importance of performance management improvements by federal agencies before a pay-for-performance system will work well. At the same time, as the Deputy Director of the Office of Personnel Management (OPM) pointed out last week, the current system of lock-step raises provides no incentive for agency managers to devote their attention to the difficult job of improving their performance management. So we have a chicken-and-egg problem here. If we wait for better appraisals before we get to pay for performance, we may never get there. In your own experience at GAO, what amount of time separated the first pay raises under a banded pay system and the first appraisals under the new competency-based performance management system? What approach would you recommend for this problem?

While there is growing agreement on the need to better link individual pay to performance, experience has shown that moving too quickly—and prematurely—significantly raises the risk of doing it wrong, which could severely set back the current momentum. Thus, while it is imperative that we take steps to better link employee pay 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 such efforts are successful. In our own case, we began making significant

changes to our analyst performance management system in 2000 and made more direct links between performance and pay as a result of the 2002 appraisal cycle. It should be noted, that we had over a decade of experience in the use of pay banding before we undertook our recent changes, so much of the needed organizational infrastructure was already in place. With regard to executive branch agencies, the key to progress over the next year is to create performance management systems that are capable of supporting more performance based pay and other personnel decisions. Such performance management systems are based on the practices used by leading organizations to align individual performance with organizational success and have the institutional infrastructures that provide adequate safeguards, reasonable transparency, and appropriate accountability mechanisms.[4] The critical issue is not so much the length of time needed, but rather the extent to which agency senior leadership is willing to provide the priority attention and targeted investments needed to create and maintain a results-oriented performance management system. Finally, in our view, appropriate systems and safeguards should be in place before any additional pay for performance authority is actually implemented or operationalized under this approach. Congress could authorize such authority while providing that certain conditions must be met before the authority can be implemented or operationalized.

3. Last week, when we asked the Deputy Director of OPM about the desirability of eliminating the General Schedule altogether, he testified that the Administration's proposal for a $500 million Human Capital Performance Fund was a "downpayment" on pay reform. Would you agree that the Human Capital Performance Fund is a step in the right direction, if perhaps only a baby step? Do you think the executive branch is capable of doing a good enough job on performance appraisals to experiment on about one half of one percent of pay? Maybe this is a way to get some energy into the agencies when it comes to improving their performance management.

Modern, reliable, effective, and, as appropriate, validated performance management systems with adequate safeguards, including reasonable transparency and appropriate accountability mechanisms, must serve as the fundamental underpinning of any successful results-oriented pay reform. Most executive branch agencies are a long way from meeting this essential test.

To build the necessary performance management systems within agencies and to create incentives for progress, I suggested in my testimony that Congress should consider establishing a governmentwide fund where agencies, based on a sound business case, could apply to OPM for funds to be used to modernize their performance management systems and ensure that those systems have adequate safeguards to prevent abuse. The basic idea is to provide for targeted investments needed to prepare agencies to use their performance management systems as strategic tools to achieve organizational results and drive cultural change. (If successful, this approach to targeted investments could be expanded to foster and support agencies' related transformation efforts, including other aspects of the High

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

Performing Organization (HPO) concept recommended by the Commercial Activities Panel.)

Congress should also consider providing the authority where whole agencies and/or employee groups move to a pay for performance approach only after it has been demonstrated to OPM that a modern, reliable, effective, and, as appropriate, validated performance management system with adequate safeguards, including reasonable transparency and appropriate accountability mechanisms, is in place to support pay and related personnel decisions. In any case, Congress should consider establishing statutory principles for the standards that an agency must have in place before OPM can grant additional pay flexibilities. OPM, working with the Chief Human Capital Officers' Council, would issue guidance implementing legislatively-defined principles.

As a first step, the Senior Executive Service needs to lead the way in the federal government's effort to better link pay to performance. We have reported that there are significant opportunities to strengthen efforts to hold senior executives accountable for results.[5]

4. I notice in your testimony that you believe OPM should play an aggressive leadership role in the area of human capital management. If pay and performance management systems are handed over to individual agencies so they can tailor their systems to their particular needs and objectives, what role in setting compensation policy would you foresee for OPM?

We have reported that OPM leadership is critical to accomplish its mission in a decentralized human capital environment in which direct accountability for strategic human capital management continues to shift to agencies.[6] In particular, as noted above, OPM should certify that an agency has a modern, effective, credible, and as appropriate, validated performance management system in place before the agency is granted the authority to better link pay to performance for broad-based employee groups. In addition, OPM should gather, assess, and disseminate leading practices from federal organizations on a full range of innovative human capital policies and procedures, such as pay for performance. Further, OPM should build on its White Paper to design and lead a broad research agenda to develop a more market-based approach to federal pay.

5. What legislative changes do you think are most important for us to enact in this Congress to improve the government's human resources management over both the short and long term? Or, if we could only get one change, what should that be?

The need for results-oriented pay reform is one of the most pressing human capital issues facing the federal government today. As implied in our answers above, Congress could provide broad-based authority for broadbanding and pay for performance along with specific statutory standards that would have to be met

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[5]U.S. General Accounting Office, *Results-Oriented Cultures: Using Balanced Expectations to Manage Senior Executive Performance*, GAO-02-966, (Washington, D.C.: Sept. 27, 2002).
[6]U.S. General Accounting Office, *Major Management Challenges and Program Risks: Office of Personnel Management*, GAO-03-115 (Washington, D.C.: January 2003).

before such authorities can be operationalized. An agency should have to demonstrate, and OPM should have to certify, that a modern, effective, credible, and, as appropriate, validated performance management system with adequate safeguards, including reasonable transparency and appropriate accountability mechanisms, is in place to support more performance-based pay and related personnel decisions, before the agency could implement a new system. OPM should be required to act on any individual certifications within prescribed time frames (e.g., 30-60 days).

6. Similarly, where do you think we should most focus our oversight attention in the area of human resources management?

Congress has had and will need to continue to have a central role in improving agencies' human capital approaches. First and foremost, congressional oversight is important to ensure that agencies human capital plans and programs are integrated with program missions and goals. Too often in the past, agencies' program initiatives were designed and implemented without due regard to the human capital implications that these program decisions entail. In addition, Congressional oversight is important to ensure that agencies effectively and properly use human capital authorities and flexibilities that Congress has provided, for example those in the Homeland Security Act. While agencies' first priority should be to improve their human capital management by using the authorities already available to them, additional flexibilities may be appropriate where clear business cases have been established.

Questions from Senator Carper

1. In recent years, Congress has granted agencies like the Internal Revenue Service and the Federal Aviation Administration some additional personnel flexibilities aimed at meeting agency-specific problems. Just this year, the National Aeronautics and Space Administration came to this committee with its own set of problems and suggested some reforms aimed at recruiting workers with advanced degrees in math and science. Would it be better for Congress to address human capital issues on an agency-by-agency basis rather than enacting broad reforms that may not be well suited for everyone?

We strongly support the concept of modernizing federal human capital policies, including providing reasonable flexibility to management in this critical area provided adequate safeguards are in place to prevent abuse. In this regard, we believe that Congress should consider both governmentwide and selected agency changes to address the pressing human capital issues confronting the federal government. 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 the Department of Defense). In addition, targeted reforms should be considered in situations where additional testing or piloting is needed for fundamental governmentwide reform.

In our view, it would be preferable to employ a governmentwide approach to address certain flexibilities that have broad-based application (e.g., broadbanding, pay for performance, part-time employment, reemployment annuities) and serious potential

implications for the civil service system, in general, and OPM, in particular. In these situations, it may be prudent and preferable for Congress to provide such authorities on a governmentwide basis and in a manner that ensures that appropriate performance management systems and safeguards are in place before the new authorities are implemented by the respective agency. This approach is not intended to delay action on any 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 provide agencies with reasonable flexibility while incorporating key safeguards to help maximize the chances of success and minimize the chances of abuse and failure. This approach would also help to maintain a level playing field among federal agencies in competing for talent and avoid a further fragmentation of civil service in key areas.

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. 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, the existence of a modern, effective, credible, and validated performance management system that includes adequate safeguards, including reasonable transparency and appropriate accountability mechanisms, to ensure the fair, effective, and nondiscriminatory implementation of the system.

2. In your view, how helpful can the streamlined hiring process authorized through the Homeland Security Act be in helping agencies address their personnel problems? How helpful can the other governmentwide personnel provisions included in the bill be?

Much of the authority agency leaders need to manage human capital strategically is already available under current laws and regulations, especially in connection with modernizing existing performance appraisal and management systems.[7] In that regard, we believe that the hiring and other central provisions of the Homeland Security Act will serve as important tools for agencies to use to address their hiring and other human capital needs. For example, the Homeland Security Act included significant provisions relating to categorical ranking when considering applicants, direct hire authority, the creation of chief human capital officer (CHCO) positions and a CHCO Council, an expanded voluntary early retirement and "buy-out" authority, a requirement to discuss human capital approaches in Government Performance and Results Act plans and reports, and a provision allowing executives to receive their total performance bonus in the year in which it is awarded.

3. What are the specific safeguards against discrimination and abuse that you believe need to be in place before an agency can implement a "pay for performance" program?

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[7]To assist agencies in identifying available human capital flexibilities, OPM has published *Human Resources Flexibilities and Authorities in the Federal Government* (Washington, D.C.: July 2001).

At the request of Representative Danny Davis, we developed an initial list of possible safeguards for Congress to consider to help ensure that any pay for performance systems in the government are fair, effective, and credible:

- Assure that the agency's performance management systems (1) link to the agency's strategic plan, related goals, and desired outcomes and (2) result in meaningful distinctions in individual employee performance. This should include consideration of critical competencies and achievement of concrete results.

- Involve employees, their representatives, and other stakeholders in the design of the system, including having employees directly involved in validating any related competencies, as appropriate.

- Assure that certain predecisional internal safeguards exist to help achieve the consistency, equity, nondiscrimination, and nonpoliticization of the performance management process (e.g., independent reasonableness reviews by Human Capital Offices and/or Offices of Opportunity and Inclusiveness or their equivalent in connection with the establishment and implementation of a performance appraisal system, as well as reviews of performance rating decisions, pay determinations, and promotion actions before they are finalized to ensure that they are merit-based; internal grievance processes to address employee complaints; and pay panels whose membership is predominately made up of career officials who would consider the results of the performance appraisal process and other information in connection with final pay decisions).

- Assure reasonable transparency and appropriate accountability mechanisms in connection with the results of the performance management process (e.g., publish overall results of performance management and pay decisions while protecting individual confidentiality and report periodically on internal assessments and employee survey results).

The above items should help serve as a starting point for Congress to consider in crafting possible statutory safeguards for executive agencies' performance management systems. OPM would then issue guidance implementing the legislatively defined safeguards.

4. What role should employees play in administering any "pay for performance" initiative tested or put into place at the federal level?

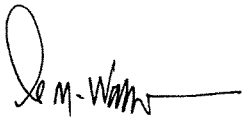
We have reported that the involvement of employees both directly and indirectly is crucial to the success of new initiatives, including implementing a pay for performance system.[8] Performance management systems are more effective when employees perceive the process to be fair and the criteria to be clearly defined, transparent, and consistently applied. Leading organizations have found that by

[8]U.S. General Accounting Office, *Results-Oriented Cultures: Insights for U.S. Agencies from Other Countries' Performance Management Initiatives*, GAO-02-862 (Washington, D.C.: Aug. 2, 2002) and *Human Capital: Practices That Empowered and Involved Employees*, GAO-01-1070 (Washington, D.C.: Sept. 14, 2001).

actively involving employees, unions, or other employee associations when developing results-oriented performance management systems, employee confidence and belief in the fairness of incentive programs improves due to an understanding of why certain employees were rewarded. To involve stakeholders and employees when reforming their performance management systems, agencies should:

- Consult a Wide Range of Stakeholders Early in the Process.
- Obtain Feedback Directly from Employees. Directly asking employees to provide feedback on proposed changes in their performance management systems encourages a direct sense of involvement and buy-in, allows employees to express their views, and helps to validate the system to ensure that performance measures are appropriate.
- Engage Employee Unions or Associations. Effective labor-management relations help to achieve consensus on planned changes, avoid misunderstandings, and assist in the expeditious resolution of problems.

For additional information on our work on federal agency transformation efforts and strategic human capital management, please contact me on 512-5500 or J. Christopher Mihm, Director, Strategic Issues, at 512-6806 or at mihmj@gao.gov.



David M. Walker
Comptroller General
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(450218)

RESPONSES TO QUESTIONS FOR THE RECORD FROM DAN G. BLAIR

QUESTIONS FOR THE RECORD FROM CHAIRMAN VOINOVICH

QUESTION: What human capital activities is the Office of Personnel Management leading in the Government and do they compliment the legislation we are discussing today?

RESPONSE: OPM is leading the Governmentwide initiative on the strategic management of human capital. This is a transformation in the way we employ, deploy, develop and evaluate our most important resource – our people.

OPM has been working with agency leaders to help them develop human capital plans linked to their mission and goals. Agencies have developed and begun to implement plans to make their organizations more citizen-centered, to ensure that their workforce has the skills necessary to achieve the agency's mission, and to establish performance appraisal systems that hold managers and employees accountable for results.

We have been providing technical assistance to agencies to help them progress in these areas. Some of our assistance is in response to agency requests for special teams of OPM experts to go into the agency and help it overcome specific problems; some of our help comes from our ongoing collaboration with agencies working to meet the standards for success that we have established with OMB and GAO.

We are stressing the development of accountability systems so that agencies can ensure that their human capital functions are merit-based, efficient, effective, and aligned with their mission strategies. Our aim is that agency human capital decisions are guided by data-driven, results-oriented plans and action.

While the development of these accountability systems will place more responsibility on agencies for proper and effective human capital decisions, we at OPM will continue to oversee agency activity through both data-based and onsite compliance reviews to ensure that merit system principles guide agency actions.

Our dual effort to encourage the use of human capital management flexibilities and to monitor the appropriate and effective use of those flexibilities sets the proper stage for the legislation under consideration. We are prepared both to promote the enhanced agility that the legislation will provide and to ensure that agencies uphold merit principles as they take full advantage of the opportunities the legislation will allow.

QUESTION: During the previous administration, OPM's workforce was cut in half, causing the agency to struggle with its image and responsibilities as a leader in Federal HR. Now Director James is realigning the agency to better meet the needs of Federal agencies, which she outlined in yesterday's *Federal Times*. As you know, the *Federal Workforce Flexibility Act of 2003* would shift oversight of the Federal Government's critical pay authority from OMB to OPM in order to encourage increased application of this underutilized flexibility as a means of attracting talented individuals to critical positions.

Given OPM's past downsizing and current restructuring, do you believe that your agency has the right people with the right talent to oversee and manage this important change?

RESPONSE: We appreciate your introduction of S. 129, which would, among other things, consolidate the responsibility for the administration and oversight of the critical pay authority with the many pay flexibilities already addressed by OPM. We have always believed that we could integrate the responsibility for the critical pay flexibility into our work with other pay flexibilities such as special salary rates and recruitment and retention incentives. Having completed our realignment, we are confident we have the right people with the right talent to manage that program should the responsibility be transferred from OMB.

QUESTION: Also, more globally, do you feel that OPM has the workforce it needs to lead the Government's human capital initiatives?

RESPONSE: Yes. OPM is well-positioned to lead the Federal Human Capital transformation, as outlined in the President's Management Agenda. Over the years we have taken justifiable pride in the quality and professionalism of our workforce, so we were not surprised with the positive responses of our employees in the recently released Federal Human Capital Survey. Nevertheless, with the new challenges posed by the human capital initiative we have had to rethink how we utilize our workforce. The result is one of the most significant restructurings ever undertaken by this agency.

Under the new structure we now have a major agency subcomponent organized along agency lines and dedicated to ensuring that each Federal agency manages its human capital effectively. There is an assigned Human Capital Officer for each agency and in the new structure that individual is supported by managers and additional staff dedicated to assisting in human capital transformation at that agency.

OPM has also revamped its policymaking apparatus, decreasing our traditional emphasis on interpreting the status quo in order to focus on devising new strategies and policies suitable for the 21st century. The President's Human Capital Performance Fund proposal is an early example of our new orientation toward the future. We have also brought all of our reimbursable services into a single organizational unit -- enhancing our ability to provide agencies the services they need as they learn to operate in today's more flexible Civil Service environment.

This restructuring was put in place in March and, in spite of the difficulties posed by an uncertain budgetary situation, we are moving forward to fill executive and other high level positions. Already the excitement generated by our forward-looking human capital initiatives has begun to draw top-notch talents from other agencies and outside the Federal sector, and we expect to pick up further momentum as we continue to fill vacancies.

Meanwhile, we have made the ongoing development of our current staff a major priority. Our mission is to help agencies devise workforce and succession plans to identify needed job-related competencies and the means to close any gaps, and to reward and motivate staff with effective performance management

plans, and we are applying this same model to ourselves. The goal is to ensure our staff has the right competencies to carry out this very important mission.

Already we have witnessed great professional growth among staff assigned to the Human Capital Officer position, as they embrace the enhanced scope and status afforded them by this role. For the first time ever, we are developing a strategically minded, "big picture" oriented staff to complement the solid core of technical experts whom we still need to maintain the complex human resource management (HRM) systems required by law and regulation. As with the Human Capital Officers, much of this transformation is being achieved by giving our staff greater influence and an expanded range of duties. But we are also developing a plan for more formalized training to ensure our workforce has the skills needed to meet the challenges of the dynamic new environment.

QUESTION: Last week, I reviewed all the Federal jobs located in Ohio that were posted on the USAJOBS Web site and I was surprise to find 78 pages of jobs listed. After looking over the material, it is evident that the USAJOBS website contains the most comprehensive and up-to-date information on current Federal job openings. But I must admit, despite the amount of information available, I was a little frustrated with the way in which the material was presented. I've also heard horror stories from applicants having to wade through 15-20 pages of instructions in order to apply for Federal jobs, only to have their application completely ignored once they submit it. I understand that Monster has entered a contract with OPM to help improve the "look and feel" of the Web site.

Can you explain what Monster will do to improve the web site?

RESPONSE: Through the E-Government initiative Recruitment One-Stop, the USAJOBS Federal Employment Information System is about to be redesigned and modernized to provide genuine one-stop service to Federal job seekers and enhanced recruiting tools to Federal human resources (HR) professionals. As you may be aware, the Monster.com contract is subject to a bid protest and, once resolved, we anticipate that the implementation of Recruitment One Stop will be the first major milestone in the transformation process.

Both applicants and Federal recruiters will have access to a new, redesigned system that will offer all of the current functionality of the USAJOBs as well as new available technology. This is only the first milestone in a multi-phased project that will ultimately provide both job seekers and HR professionals with tools on par with the best practices found in the public or private sector.

Initiative Objectives

The goal of Recruitment One-Stop is to position the Federal Government as the first stop for job seekers by creating an on-line experience that offers all of the features sophisticated job seekers have come to expect from commercial sites. HR professionals will have new recruiter tools that will enable them to identify top candidates more easily and to manage the recruiting process more effectively.

The key to understanding Recruitment One-Stop lies in the word *one*. Upon project completion, there will be *one* job search engine for competitive service Federal job postings; *one* standard display for vacancy announcements; and *one* resume builder to create the basic application document. The end result

will benefit citizens by providing a more efficient process to locate and apply for jobs, and assist Federal agencies in hiring top talent in a competitive marketplace. Ultimately, we hope to see improvement in the quality level of new hires and potentially a reduction in the amount of time required to source candidates.

Key project enhancements and changes are as follows:

- Vacancy Announcements: Announcements will follow standard, concise formats, with more detailed information available by means of electronic "hyperlinks." Information common to all agencies is being revised and improved, and will be offered as a "standard language" capability. Agency job entry methods will be comparable to current capability, although the goal is to develop additional tools to make the process simpler and faster.
- Resume and Application Process: Applicants will use a new resume template covering all information normally needed to make basic qualifications and eligibility determinations. By project completion, this resume will serve as the basic application for all positions open to outside applicants. As a result, agencies will be required to accept electronic resumes. Agencies may still require applicants to submit additional information/forms specific to agency needs – and USAJOBS will remind job seekers that the full application process requires more than information contained in the basic electronic resume.
- Improved Applicant to Job Matching: The new site will allow job seekers to better match their skills with job openings through improved job search criteria. The site will also provide basic eligibility screening. Questions will address issues such as citizenship, age, or special occupational requirements, e.g., need to carry firearms; they will not deal with qualitative skill issues. By providing applicants with "up-front" notification that they do not meet basic criteria, we expect fewer clearly ineligible applicants to apply for consideration.
- Applicant Database Mining: Using a variety of search criteria, agencies will have the option of searching and reviewing the resumes of consenting applicants in the USAJOBS database. This feature will be particularly valuable in locating candidates for hard-to-fill positions by capturing "passive" job seekers who have resumes on file, but who may not have thought of looking for opportunities within a particular agency, job field, or location.
- Applicant Status Tracking: From the USAJOBS web site, job seekers will be able to access basic information about the status of announcements for which they have applied. The application status tracker will address major milestones in the recruitment process, for example: closing and/or cancellation date, date of candidate referral, and point of selection.

QUESTION: Will OPM still be responsible for working with Federal agency representatives to make sure job postings are listed in an appropriate manner?

RESPONSE: Yes

QUESTION: What is OPM doing to streamline the application process and shorten the time it takes to hire a new employee?

RESPONSE: OPM has delivered a number of highly visible (and some not-so-visible) improvements to streamline the Federal Hiring process.

- Recruitment-One-Stop will provide the Federal job seeker a one-stop shopping place to find easily accessible, timely, and understandable information regarding all vacancies, application procedures, agency contacts, etc.

- Recently, we held an IT Virtual Job Fair that provided a modern and convenient way for people to apply for a wide range of IT occupations in several agencies all at once. The entire application process, including skills tests, resume submission, and describing job specific competencies were all completed online, and applicants were available for referral immediately. The methods developed for this event are serving now as a foundation for other similar initiatives.

- A number of products that will help agencies streamline their hiring are under development. These include an updated Delegated Examining Operations Handbook, a Preferred Practice Guide, and electronic bulletins on a variety of hiring topics.

- We are reviewing our regulations to ensure that they do not serve as barriers to effective recruitment and hiring.

- We encourage agencies to take full advantage of automation and to delegate decision-making to the lowest level.

- In addition, the Homeland Security Act of 2002 made possible the Governmentwide use of category rating in evaluating and selecting employees and of the authority for direct hiring of individuals in situations where there is a severe shortage of candidates or a critical hiring need.

QUESTION: Do you expect Federal agencies to embrace these changes and abide by the Guidelines you lay out, or is there something we can do in Congress to assist you?

RESPONSE: We have been given some excellent new tools recently by Congress, such as categorical grouping of applicants and direct hire authority, so we believe the emphasis now needs to be placed on using the tools and programs available to make real improvements in the hiring process. Most agencies recognize that it is in their own best interest to improve hiring cycle time and the quality of their service to applicants. Nevertheless, OPM must serve both as facilitator and enforcer to encourage agencies to give these initiatives the priority they deserve.

We will hold agencies accountable for improved performance in hiring by:

- Working with the Chief Human Capital Officers to share best practices and address common problems, and charging them to deliver improved results;

- Continuing to use the Human Capital Scorecard process to establish and enforce standards for effective recruitment, including workforce planning to ensure to ensure that hiring strategies

link to employee development efforts and that both support achievement of the agency mission. Other requirements include optimal use of e-recruitment, a 30 day target for hiring Senior Executives, and effective use of available flexibilities such as hiring bonuses and repayment of student loans.

- Using the hiring metrics we have developed for mission-critical occupations to hold agencies for performance in areas such as:
  - time to hire,
  - applicant quality, and
  - applicant satisfaction as reflected in surveys;

Ultimately, agencies will not receive a "green" score in Strategic Human Capital under the President's Management Agenda unless they attain an acceptable level of efficiency in their hiring process.

QUESTION FOR THE RECORD FROM CHAIRWOMAN DAVIS

QUESTION: What guidance has OPM provided to agency heads in terms of what to look for when appointing a Chief Human Capital Officer? Has OPM provided any guidance at all?

RESPONSE: On April 18, 2003, OPM contacted agency heads on this subject. In addition to announcing the establishment of the Chief Human Capital Officers (CHCO's) Council, we provided a competency profile for CHCO's linked to the six Standards for Success in the Human Capital Assessment and Accountability Framework developed jointly by OPM, the Office of Management and Budget, and the General Accounting Office. A copy of this material is attached.

QUESTION: If pay and performance management systems are handed over to individual agencies so they can tailor their systems to their particular needs and objectives, what role in compensation policy do you foresee for OPM?

RESPONSE: Since 1995, agencies have had a great deal of flexibility to design performance management systems best suited to their needs and objectives. OPM's role since then has been to provide extensive policy guidance and assistance to educate agencies on a wide variety of performance management topics, such as developing employee performance plans that align with agencies' strategic plans, information about successful practices among the agencies, and ways in which to use employee awards to support organizational missions. In addition, OPM has aggressively encouraged agencies to take full advantage of human resources flexibilities to attract and retain well-qualified, high-performing employees. We continue to see our role as advisor, facilitator, and advocate of pay and performance management systems that allow agencies to provide significant rewards for superior performance. OPM will develop necessary regulations, guidance, and tools needed by agencies to develop strategic plans for recruiting, retaining, developing, and rewarding their workforce. In addition, OPM will continue to administer Governmentwide pay systems like the General Schedule until such systems are replaced by more flexible pay systems. Even then, OPM will still have a role in managing such pay systems by determining market rates and ensuring Governmentwide consistency in the application of such systems, especially when employees move between Federal agencies.

I have a number of questions about the Administration's $500 million Human Capital Performance Fund.

QUESTION: As I understand it, agencies would, in essence, apply for their share of the Fund by submitting a description of their planned criteria and procedures for distributing pay raises using that money. My first question is: what happens to an agency's share if OPM rejects that agency's plan? Are the employees of that agency just out of luck and get none of the Fund? Does the money stay in the Fund? Do other agencies' prorata shares increase? Help me out here.

RESPONSE: If its plan is inadequate, an agency may receive no HCPF monies or only a portion of its full pro rata share of the fund. An agency's employees would receive no HCPF salary increases if the

agency receives no HCPF monies. OPM may, at its discretion, distribute the amount withheld to agencies that have critical human capital needs or particularly effective plans.

QUESTION: A substantial number of employees are rated on a simple pass/fail basis and I understand these appraisal systems may be established in negotiated agreements. Would OPM rule out that kind of a system for an agency to participate in the Human Capital Performance Fund? How can meaningful distinctions in performance be made under such a system?

RESPONSE: It is correct that a pass/fail appraisal system on its own does not make meaningful distinctions in performance. However, an agency may use its award programs to make such distinctions. Awards criteria can be linked to organizational goals and program accomplishments. We would not automatically rule out the participation of an agency with a pass/fail system, as long as the agency's plan for using monies from the Human Capital Performance Fund (HCPF) demonstrates that meaningful distinctions in performance can be made among employees who are rated as "pass."

QUESTION: I understand that OPM would determine the prorata shares for each agency according to that agency's payroll. That makes sense. And before distributing the money, OPM would withhold $50 million to agree that we need to incentivize agencies to put some real thinking into their plans, but I'm also concerned about this aspect of the proposal for two reasons: First, will the Administration include in the actual language of the legislation the criteria it will use in making this determination? Second, compensation would vary depending on the strength of an agency's ability to draw up a plan, not depending on the actual work of employees. How does this aspect of your proposal fit into the merit system principle under which an individual's work determines his or her pay, not the employer's administrative strengths?

RESPONSE: The Administration will set out very clear criteria for agencies to follow in submitting plans for Human Capital Performance Fund (HCPF) payments. We expect agency HCPF plans to demonstrate that their performance management systems support their strategic goals and are used to make meaningful distinctions based on relative performance. Only those employees who clearly demonstrate the highest performance in terms of contributions that have significant impact on agency mission and goals should receive the highest performance evaluations and HCPF payments.

The Administration believes it is much more desirable to use Governmentwide regulations to set the criteria, supplemented by policy guidance if needed, rather than fixing the criteria in legislation. It may well be that as we work with the criteria in the early years of the HCPF program, we will find that the criteria need to be modified based on experience, the needs of agencies, and the intended goals of the HCPF proposal. We need the ability to modify and adapt such programs in response to changing conditions, without having to seek legislative changes.

OPM will work diligently with agencies in the development and refinement of their plans in order to help them thoroughly understand the criteria we develop for implanting HCPF plans, training employees, and allocating funds. This will help insure that agency plans meet OPM's requirements and that agencies will be able to demonstrate that their performance management system directly relates to the successful accomplishment of their mission and goals. Through this targeted approach, we believe that those

employees who clearly demonstrate the highest performance in terms of their contributions and impact on the agency's mission and goals will receive the deserved HCPF benefits. Further, consistent with the Merit Systems Principles, we will work to ensure consistency in the administration of the Fund and to maintain a fair system that will attract and motivate the best and brightest of the rising generation to heed the call to public service.

QUESTION: How many different agency plans are we talking about here? One for each cabinet department and independent agency, or are you going to break down large agencies? One for each VA hospital, or one for the entire Department?

RESPONSE: We expect to allow agencies some flexibility in determining how many plans they might submit. For example, an agency might submit a single plan for all of its employees or a series of plans for different segments of its workforce. If, in an unusual situation, an agency submits a series of plans of varying quality, where one or more may not be approved by OPM, we will provide the agency its pro rata share of the HCPF fund for those segments of its workforce covered by the plans that are approved.

QUESTION: Does OPM believe that Senior Executives should have appeal rights to MSPB if their pay is reduced above say a fixed percentage, within the wide single pay band that would cover the entire range of Executive's pay. If not, why not?

RESPONSE: Under current law, the rate of basic pay of members of the Senior Executive Service (SES) may be reduced if the member is given written notice at least 15 days prior to the reduction in pay. SES members do not have the right to appeal a reduction in their rate of basic pay to the Merit Systems Protection Board under current law, and we see no reason to provide such appeal rights under the President's SES pay reform proposal.

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, DC 20415-1000

OFFICE OF THE DIRECTOR

APR 1 8 2003

MEMORANDUM FOR HEADS OF DEPARTMENTS AND AGENCIES

FROM: KAY COLES JAMES
Director

SUBJECT: Chief Human Capital Officers and Council

In his Management Agenda, the President has recognized that the Federal government's workforce is one of its most valuable assets. The Chief Human Capital Officers Act of 2002 ("Act"), signed into law by the President on November 25, 2002, as part of the Homeland Security Act, requires Executive departments and agencies to designate a senior official to be the agency's Chief Human Capital Officer (CHCO).

The CHCO is the individual who is ultimately accountable for the strategic management of the agency's workforce. He or she is vested with "stewardship" responsibility for its human resources, much as an agency's Chief Information Officer and Chief Financial Officer are with respect to its information and fiscal resources. As specifically envisioned by the Act, the individual designated to serve in this critical new position will "advise and assist the head of the agency and other agency officials in carrying out the agency's responsibilities for selecting, developing, training, and managing a high-quality, productive work force in accordance with merit system principles." It is intended that the CHCO be an individual at a very senior level who has the trust of the Secretary or agency head to serve as chief policy advisor on all human resources management issues, including the most sensitive and confidential policy matters.

The Act applies to all Cabinet level departments and the major agencies listed in 31 U.S.C. § 901 (b)(2) and provides for each agency head to either *appoint* or *designate* a Chief Human Capital Officer (§ 1401). This means that the CHCO may either be a new position within your organization, or the duties set forth in the Act and discussed above may be assigned to an existing position, which will then also carry the additional title of CHCO. For agencies creating a new position, I strongly recommend that the position be placed within the Senior Executive Service. For organizations which intend to assign the title and duties to an existing position, I recommend that you do so either with an employee currently in the SES, or to an existing Presidential Appointee.

There is no statutory requirement that the CHCO report directly to the head of the agency in a strict structural sense. However, the individual so designated should serve as an integral member of your senior leadership team, participating fully in its deliberations

integral member of your senior leadership team, participating fully in its deliberations and decisions and sharing accountability with the other members of that team for the agency's bottom line performance and mission results. In this regard, your Chief Human Capital Officer will require qualities and competencies that likely differ from those traditionally found in a Federal agency's typical personnel or human resources (HR) staff function. These are generally described in the attached CHCO competency profile. Derived from the six critical Standards for Success enumerated in OPM's Human Capital Framework, this profile is intended to serve as a template for your use in soliciting, evaluating, and ultimately selecting your CHCO. In order to meet the President's high expectations with respect to this vital component of his Management Agenda, I request that addressees designate a Chief Human Capital Officer promptly on May 24, 2003, the effective date of the Act. In keeping with the spirit and intent of the Act, agencies should designate their CHCO only after an extensive search, using the attached template as a basis for that effort.

The Act also establishes a Council of agency Chief Human Capital Officers to oversee and coordinate these critical activities. Under the Act, as the Director of OPM, I serve as chair of that Council, with the Office of Management and Budget's Deputy Director for Management serving as vice chair. The Council is envisioned to be a high-level policy planning body that can address and advance the Administration's strategic objectives. On May 24, the CHCO Council will be chartered and convened officially, and the Human Resource Management Council will be disestablished. Prior to that inaugural meeting, we will develop and circulate a draft charter, patterned after those utilized by the CIO and CFO Councils, and carry out other planning activities. We will use the Federal Executive Institute and others to offer a series of seminars and workshops to assist CHCOs with the continuing refinement of agency human capital strategic plans and corporate metrics to evaluate their effectiveness. Those strategic plans and metrics are also required by the Homeland Security Act and further the President's Management Agenda.

OPM will be providing you with additional details on these and other Council activities over the coming months. In the meantime, if you have any questions, please do not hesitate to contact me directly; alternatively, you may contact my Senior Policy Advisor, Dr. Doris Hausser, at (202) 606-1000.

Attachment

Attachment

To help you recruit and select the right person to transform the way you manage your workforce, OPM has prepared this competency profile for a Chief Human Capital Officer. The profile emphasizes the critical nature of this leadership role and describes the competencies needed to meet each of the Standards for Success in the Human Capital Framework, that is, the standards OPM and OMB use to judge your human capital efforts under the President's Management Agenda.

The best CHCO candidates will be able to demonstrate competencies in all of these areas.

Agency Chief Human Capital Officer (CHCO)
Competency Profile

Principal Consideration

This profile includes a mix of executive leadership and human resources (HR) competencies. The leadership skills are paramount. A Chief Human Capital Officer is above all else a leader and someone very results oriented. The individual you designate as your CHCO must, at a minimum, meet or exceed the Executive Core Qualifications required for members of the Senior Executive Service. Further, it is intended that the CHCO be an individual at a very senior level who has the agency head's trust to serve as chief policy advisor on all human resources management issues, including the most sensitive and confidential policy matters. The HR qualifications also included in this profile are not intended to be specific to the Federal government; rather, they are deliberately generic in nature to encourage the consideration of candidates with relevant experience and expertise from other sectors.

Additional Considerations

Principal Responsibilities and Accountabilities. By law, an agency's Chief Human Capital Officer (CHCO) is the senior official accountable for "selecting, developing, training, and managing a high-quality, productive workforce, in accordance with merit principles." In effect, the CHCO serves as the "steward" for the agency's human resources on behalf of the public, just as the Chief Financial Officer and Chief Information Officer do for the agency's fiscal and information resources. In fulfilling this responsibility, the CHCO is the agency head's principal advisor and policy-maker on all matters relating to its employees, and is responsible for designing, developing, and executing an agency-wide human capital strategy that (1) aligns with and contributes directly to the agency's mission and strategic goals; (2) plans for and deploys the human resources necessary to achieve those goals; (3) ensures that the agency's leadership is effectively able to leverage its human resources, as well as an environment that values and provides for continuous learning; (4) provides the requisite talent by recruiting and/or promoting superior candidates and providing them high-quality training and development; (5) leverages that talent by recognizing and rewarding excellent performance and results; and (6) assures accountability to Administration goals, law and governing regulation, merit principles, the public interest, and the highest standards of ethics and integrity.

- **Strategic Alignment.** The CHCO is responsible for developing and executing the agency's human capital strategy as part of its overall Government Performance and Results Act (GPRA) strategic plan, assuring that human resources (HR) policy and program initiatives are aligned with, and contribute to, the Administration's strategic goals and objectives, as well as the agency's mission, strategic goals, annual operating plans, and short- and long-term performance objectives. As a member of the agency's senior leadership team, the CHCO is its principal advisor and consultant on all matters relating to its workforce. He or she is sufficiently versed in the agency's core missions and functions, so as to be able to participate as a full "business partner" with that team in the development of the agency's GPRA strategic and annual operating plans, as well as its budget estimates and submissions. In so doing, the CHCO serves as the proponent for the agency's workforce, assessing and effectively articulating human resources policies and programs that support and enable those plans and objectives.

- **Workforce Planning and Deployment.** Once an agency's strategic goals and annual operating objectives are established, the CHCO is responsible for developing plans to assure that it actually has the human resources necessary to achieve them, and that they are deployed in a structure that is citizen-centered and mission-focused. In this regard, the CHCO is able to employ sophisticated quantitative methods and modeling techniques to anticipate future agency human resources requirements, assessing those requirements against current and projected workforce characteristics (including years of service and experience, intake and attrition rates, diversity, critical skill mix, etc.) and developing short- and long-range staffing, training, succession management plans to ensure that those requirements are met. A long range workforce planning horizon is especially critical, given that it often takes several years for human resources to reach their full productive potential in any given position; thus, the CHCO must be able to work closely with the agency's planning and budget staffs (and be knowledgeable of their processes and techniques) to ensure that workforce requirements and plans are consistent with and complement GPRA and budget submissions, as well as financial and operating plans.

- **Leadership and Knowledge Management.** The CHCO is accountable for assuring that all levels of leadership, from the head of the agency to its first-level managers, are capable of inspiring and motivating the agency's workforce to achieve its strategic goals and performance objectives, and that those leaders foster a work environment and organizational culture that values technical excellence, continual learning and performance improvement. To this end, the CHCO develops and implements leadership, management, and technical training and career development strategies that equip executives, managers, and employees with the competencies and capacity to achieve excellence, leveraging the agency's information resources and systems to do so. In addition, employees at all levels of the organization must demonstrate, through their behaviors and actions, the highest standards of honesty, integrity, openness, trust, and respect for their fellow employees. In this regard, the CHCO also assures that the agency's human resources management strategies and systems are consistent with and continually reinforce these leadership values (for example, by recruiting, developing, rewarding, and promoting those that excel in this area).

- **Results-Oriented Performance Culture.** Much of an agency's culture is shaped by its human resources management systems and policies, and the CHCO is responsible for ensuring that those systems and policies establish and continuously reinforce the highest standards of commitment, performance excellence, integrity, and accountability among the agency's employees and managers. In this regard, the CHCO must be able to design, develop, and implement compensation and performance management systems that enable agency executives and managers to (1) set high expectations with respect to employee performance and conduct that link directly to strategic goals and operating objectives, as well as to core agency values; (2) make credible distinctions between and among their employees with respect to their performance against those expectations, (3) utilize those distinctions as a basis for meaningful rewards and recognition, financial and otherwise, and (4) be recognized and rewarded in their own right when they do so. In so doing, the CHCO plays a key leadership role in enabling the agency to establish and maintain a true "performance culture" that values the highest quality services and results to citizen-customers and the public at large.

- **Talent.** The CHCO is responsible for ensuring that the agency has the requisite talent and workforce capacity to accomplish its mission, developing effective strategies to ensure that the agency is able to recruit, hire, train, develop, and deploy a diverse, highly skilled, technically competent workforce that is well managed and well led. In this regard, the CHCO is able to analyze mission requirements and priorities, translate those requirements into critical workforce capabilities (including leadership capabilities), analyze and assess "gaps" between those critical capabilities and existing workforce capacity, and devise effective means of closing those gaps. Employing state-of-the-art information technology, he or she is able to develop innovative strategies that successfully establish the agency as an "employer of choice," attracting and competing for top talent to staff mission-critical positions, and leveraging that talent through the delivery of high-quality training, education, leadership development, and succession management programs that provide a demonstrable "return on investment" in terms of improved employee and managerial performance.

- **Accountability.** Finally, but perhaps most importantly, the CHCO assures the agency principal or director is provided with a system through which the agency's executives, managers, and employees are accountable to the Administration's strategic goals and performance objectives, governing law and regulation, merit principles, the public interest, and the highest standards of ethics and integrity. The CHCO achieves this accountability by ensuring that the agency's human capital strategy, as well as its various HR systems, policies, programs, and practices are (1) in conformance with and reinforce those various authorities; (2) driven by appropriate data and analysis; (3) results-oriented; and (4) clearly linked to and support the agency's other accountability systems, to include its planning, performance measurement, program evaluation, budgeting, and financial management systems.

QUESTIONS FOR THE RECORD FROM SENATOR TOM CARPER

QUESTION: In the past, the administration has supported legislative proposals that would significantly increase the amount agencies can offer in recruitment, retention, and relocation bonuses. How frequently have agencies given these kinds of bonuses in the past? How have they been used? Why is the amount agencies are allowed to offer today insufficient? If they are given the authority to offer more, how will this authority be used?

RESPONSE: The Administration strongly endorses enhancement of the recruitment, relocation, and retention bonus authorities under 5 U.S.C. 5753 and 5754. We believe the legislative proposals will make these human resources tools more flexible and effective, enabling agencies to use them in a targeted way to achieve the results they need. Agencies would be authorized to pay recruitment and relocation bonuses in excess of 25 percent (up to 100 percent of pay). In addition, agencies could provide retention bonuses in excess of 25 percent (up to 50 percent with OPM approval). We note that although the legislative proposals increase the maximum amounts for recruitment and relocation bonuses, such increases would be directly related to increases in the length of the employee's service agreement.

In 2002, fewer than 1 percent of employees received recruitment, retention, or relocation allowances. The average recruitment or relocation bonus was approximately 13 percent, while the average retention allowance was approximately 11 percent. Some agency officials have told us that they would like to be able to offer larger bonuses to attract or retain individuals, with especially critical skills. Although overall use of recruitment, retention, and relocation payments is low as a percentage of the overall Federal workforce, agencies tend to target the use of these flexibilities for specific occupations, such as health care, information technology, engineering, and law enforcement occupations.

Because agencies have discretionary authority to grant recruitment, retention, and relocation bonuses, we cannot predict how the enhanced bonus authority will be used.

QUESTION: As you know, the General Schedule under which most Federal employees work consists of 15 grades with 10 steps per grade. Movement within a grade or between grades comes with extra pay and depends on job performance. Poor performance means no step or grade increase. Why are these "pay for performance" aspects of the General Schedule insufficient?

RESPONSE: The "pay-for-performance" aspects of moving between grades or within a grade under the current General Schedule pay system are limited. Pay increases upon promotion to a higher grade are based on the grade and step from which the employee is promoted, rather than on the relative quality of the employees work compared to other employees. Likewise, no performance-based distinctions can be made in granting within-grade increases; the employee either performed at an acceptable level and receives the set dollar amount of the within grade or not, regardless of whether the employee's performance is acceptable, very good, or outstanding.

Annual pay raises are not dependent on performance at all. All employees, including those receiving unacceptable performance evaluations, receive across-the-board and locality pay increases regardless of level of performance. This pay system sends the message that pay will—and should—increase with

inflation and with the passage of time. For example, in the Washington DC, locality pay area all employees eligible for locality pay received pay raises of 4.27 percent in 2003 regardless of performance, some received within-grade increases of 3.3 to 2.6 percent for maintaining an acceptable level of performance, and a few received quality step increases for outstanding performance. Most of the money allocated for increases went to the 4.27 percent increase received by all employees eligible for locality pay. Federal employees receive more and greater pay increases simply for remaining on the payroll than for meeting or exceeding performance expectations.

For most employees, their time-driven increases have much more value than any awards or raises they receive for outstanding performance. Furthermore, the limited extent and impact of performance-sensitive pay is strongly at odds with a strategic human capital management perspective. In 2002, the Government distributed $5 billion on these performance-insensitive pay adjustments and related benefits costs. An employee needs to do little, if anything, to earn these increases; they are essentially entitlements. In contrast, private sector companies take great pains to avoid creating pay entitlements and focus instead on the strategic leverage that pay delivery tools provide.

QUESTION: How does the administration plan to make use of the streamlined hiring process authorized in the Homeland Security Act? When would agencies be permitted to use it?

RESPONSE: OPM is drafting regulations to implement the hiring flexibilities of the Homeland Security Act. Category rating and direct-hire authority will dramatically simplify and streamline the hiring process, particularly from an applicant's perspective. Agencies will be able to take full advantage of these hiring flexibilities once OPM has issued final regulations.

QUESTION: OPM and the Department of Homeland Security announced last week that they were taking the first steps toward setting up the new personnel system the Homeland Security Act authorizes them to create. How active a role will employees and their representatives play in the process?

RESPONSE: As provided for within the Homeland Security Act, Department of Homeland Security (DHS) employees and their representatives will be actively involved in the entire design process leading up to the ultimate selection of Human Resource (HR) systems for the Department of Homeland Security by the Secretary of DHS and the Director of OPM. Both DHS employees and employee representatives have been selected to serve as members of the DHS HR Design Team. This Team will develop HR options for the consideration of a Senior Review Committee which will include, as members, the Presidents of the three major unions within DHS—the American Federation of Government Employees, the National Treasury Employees Union, and the National Association of Agriculture Employees. In addition, Town Hall Meetings specifically designed to obtain employee input will be scheduled in 5-7 cities outside the Washington DC metropolitan area in which are found major clusters of DHS employees, and an employee website will be established that will be devoted to the same purpose. Working with DHS, we are determined to provide maximum opportunity for the involvement of DHS employees and employee representatives in the HR systems design process.

RESPONSES TO QUESTIONS FOR THE RECORD FROM BOBBY L. HARNAGE

Question from Chairwoman Davis:
Under the General Schedule, employees who have been found to be minimal performers receive the same general increase each year that other employees receive. Does your organization believe this is a good system for ensuring the Government's services are as efficient as they should be?

The General Schedule is designed so that an employee must satisfactorily perform her duties and assignments over time to move within a grade or between grades. A step increase should depend on the quality of an employee's work and can be withheld from those who do not perform up to expectations. If there are problems with the General Schedule, the best way to address them would be to provide training to managers, with a separate funding stream. This conclusion is supported by a recent OPM survey.

A March 25 survey from OPM found that 80% of federal employees report that they are held accountable for achieving results. However, according to OPM "Dealing effectively with poor performers requires strong leadership. Employees do not believe their agencies take appropriate action to deal with employees who do not perform well. Only 27 percent respond positively to the statement, "In my work unit, steps are taken to deal with a poor performer who cannot or will not improve." OPM goes on to say, "The findings regarding managers' response to poor performers is less positive. Only 27 percent of federal employees believe that "steps are taken to deal with poor performers" "Only 36 percent agree that their leaders generate "high levels of motivation and commitment."

The strong leadership referred to by OPM can be fostered. Managers are often reluctant to focus on poor performance because they lack training or are simply loath to carry out this important, but often uncomfortable, responsibility. It comes as no surprise to AFGE that many managers are unwilling to address problems with poor performers. We support investing in training for them and for other employees who need assistance to carry out this essential function. The issue of disciplining problem employees is central to improving the General Schedule. However, abandoning that pay system will not fix any faults that may exist.

The General Schedule protects many important rights. It guarantees that salary and career development are functions of objective job description criteria, not a manager's subjective opinion of a worker's ability or skin color, gender, religion, age, political affiliation, or union status. We cannot abandon these protections. Instead, we should work together to improve the system that we have by investing in the tools and training that will make it work as it was designed.

Question from Senator Voinovich:
Would panelists please comment on the flaws in FEPCA that would need to be corrected in order to address these problems?

The first and most important flaw with FEPCA is that it did not mandate full funding of federal salaries. Fully funding the act would solve many of the issues that involve attracting and retaining federal workers. Additionally, it would provide an opportunity to reward high achievers and offer recruitment bonuses.

As for the assertion that there are several pay gaps, we believe that most of the data supports the conclusion that federal salaries are too low. Therefore, full funding should be provided for the locality pay system and for competitive salaries for all federal employees.

President George H. W. Bush, recognized that federal salaries generally fell behind those in the private sector by substantial amounts. The precise size of that pay lag varied by metropolitan area. FEPCA instructed the BLS to collect data so that the size of the federal-non-federal pay gap could be measured, and closed gradually to within 90% of comparability over 10 years. Unfortunately, the opposition to full implementation of FEPCA began with President Clinton and persists today. Both of these administrations asserted that the survey was flawed. The Clinton Administration believed that there were "methodological" problems. It even used the economic emergency loophole during the economic boom of the late 1990s. The Bush Administration insists that it is interested only in adjustments to federal pay that are awarded by managers to individuals, rather than addressing the large scale pay inadequacies of the current system.

Where there are legitimate disputes about the size of the gap between federal pay and non-federal pay we are willing to engage in sincere discussion of and investigation into the issue. We will talk about improving the survey. After all, it is almost 15 years old and may need to be adjusted. There is no line in the sand on this. However, we have yet to see good, solid data on this. We are willing to reexamine this if we are presented with data that is reliable and neutral rather than politically motivated. However, we cannot allow problems at the margins to distract us from recognizing that the system underpays the vast majority of the federal workforce.

Question from Senator Voinovich:
What types of incentives do you suggest would assist the government in attracting these individuals?

The best way to attract and retain effective workers is to pay them a decent wage and to treat them well when they are on the job. The first step in implementing this would be to fully fund FEPCA, which promised not only pay parity, but also comparability that would address the differences among local labor markets around the country. Competitive salaries, good pensions, decent health benefits, job security, and a chance to make a difference are what draw most people to federal jobs. Full funding of FEPCA would enable the government to attract and retain employees by providing better salaries. After all, federal pay is too low for all employees, not just prospective applicants.

The question contains an assumption that may not prove to be accurate: namely that worker mobility will be identical among younger workers (between 28-32) and older workers. In fact, there are several reasons to question this hypothesis. First, younger workers often lack the ties that bind a worker to a community and a job. Young employees are less likely to own their own home, their children are less likely to be in school, and a decent health care plan is often less important to younger workers than older ones. Therefore, I would postulate that the transience identified among the workers in the BLS survey is not a lifelong characteristic, but one that is age specific. Nevertheless, transient workers acting rationally will be attracted by many of the same incentives as other employees.

Many remarkable inducements to attract potential employees already exist in the General Schedule. Currently, agencies have the authority to provide quality step increases. These bonuses reward extraordinary performance by increasing base salary. This incentive pays dividends throughout a career, since all future raises build on the increased salary. It also counts toward retirement calculations. The passage of FEPCA provided the federal government with a variety of pay flexibilities to attract and retain employees, such as cash awards for high performers.

Most of the problems with attracting and retaining workers under the General Schedule system are caused by a lack of funding. In fact, OPM surveyed agencies in 1999 and found that less than 1% of eligible federal employees had ever benefited from these flexibilities. The problem, the survey concluded, was that FEPCA did not establish a separate funding stream for these authorities. Therefore, the full implementation of FEPCA would dramatically improve the federal government's ability to recruit a transient workforce.

Question from Senator Voinovich:
What do you see as your role helping us advance these proposals through Congress?

AFGE backs Congressional attempts to reward financially federal employees who are high performing. We deeply appreciate these congressional efforts to address the problem of insufficient pay received by hard working federal employees. These incentives provide an important tool to encourage employees to excel. They are an excellent way to reward federal workers for their commitment to public service. However, I must add a caveat: rewards for excellence must be integrated into a fully funded regular pay system. The pay system would be undermined by a proposal that would divert funds from salaries to performance bonuses. Additionally, the supplements should be fully and separately funded. This approach would reward the best employees without undermining a system that already underpays many federal workers.

Both legislative proposals would fix the unwillingness to address poor performers by offering training to managers and employees. These are excellent provisions that we happily support. The sponsors recognize that the reluctance of federal managers to appropriately deal with poor performance is caused by a lack of training or a personal disinclination. These proposals understand that the problem is managerial and discipline-related and cannot be cured by changing the current pay system.

The most important issue to address is the lack of additional funding for the proposals laid out in S. 129 and H.R. 1601. If the expanded bonus authority contained in these bills were implemented, it would require the use of funds currently earmarked for other purposes. Without extra funding these bills would rob Peter to pay Paul. By advocating for additional, separate funding streams AFGE advances the efficacy of these proposals when they are signed by the President.

We believe that the management flexibilities in the legislation should be authorized only with the full funding and implementation of pay comparability as contained in FEPCA. The expansion of authority to pay large recruitment and retention bonuses should be triggered after federal salaries reach 90% of comparability.

RESPONSES TO QUESTIONS FOR THE RECORD FROM COLLEEN M. KELLEY

Questions from Senator Voinovich

1) If I understood your testimony correctly, you all have commented on the need for full implementation of the Federal Employees Pay Comparability Act (FEPCA), which would translate into a 20 percent pay raise for federal employees; however, a November 2002 review by the Congressional Budget Office shows that while pay disparity exists, in some markets federal pay exceeds the private sector while in +--- others the pay disparity exceeds 20 percent. These findings support OPM's notion that there are several pay gaps in the current system and not one overall gap. Would panelists please comment on the flaws in FEPCA that would need to be corrected in order to adequately address these problems?

As you know, FEPCA has never been fully implemented. While there have been many reports over the last decade that have questioned FEPCA's methodology as well as the size of the pay gap, neither the White House nor the Committees with jurisdiction over the pay law have put forth proposals to address these concerns and get the pay law back on track. All too often these "concerns" have appeared to be a convenient excuse to avoid committing the necessary resources to either implement FEPCA or establish a new pay system that is fair and appropriate.

2) The American workforce is dynamic. Statistics continue to demonstrate an increase in workforce mobility. The National Longitudinal Survey published by the Bureau of Labor Statistics (BLS) demonstrates that for individuals born between 1957 and 1964, today's mid-career workforce, of the jobs at which they worked between the ages of 28 to 32, 85 percent had left in less than five years. So not only is the federal government faced with an impending wave of retirees, but the American culture is shifting so it is normal for people to find new challenges and opportunities outside their current employer. This mobility will be more prevalent in younger individuals, and the federal government will be facing greater competition to attract these talented individuals. What types of incentives do you suggest would assist the government in attracting these individuals?

Whether employees come to the federal government seeking short term public service or choose to make public service their calling, I think they are looking for the same thing - the ability to perform challenging work and to believe that they are making a difference. Instead, the message today's federal employees often receive is that their work is not important and that they are not valued. This message is passed down in many ways – through inadequate pay, excessive health insurance costs, denied training opportunities, and the fact that at any given time their jobs might be contracted out from under them to meet arbitrary quotas.

A variety of workforce incentives and human capital flexibilities are available to

federal agencies today. However, they are mostly meaningless because they have never been properly funded. As the Partnership for Public Service stated in their testimony before the Committee, "We urge Congress in making the difficult budgetary choices before it to be mindful of the fact that the workforce challenges we face cannot be successfully managed without committing the necessary resources. Follow the lead of private sector companies who have increasingly come to realize that success in workforce management feeds success in every other area of organizational activity." NTEU strongly agrees.

3) I have spent the past four years working on personnel issues with all of you. I believe Chairwoman Davis and I have offered legislative proposals that will directly benefit each of your members. Competitive pay is an important tool to address the human capital crisis, and I have included provisions in the Federal Workforce Flexibility Act to address this; however, many recent studies have shown that compensation often ranks behind factors like the opportunity to make a difference and career development. I also have included provisions that link training activities with performance plans. What do you see as your role helping us advance these proposals through Congress?

I believe NTEU can best assist your office by continuing to bring to your attention the views of the employees we represent. Efforts to empower and involve employees in their workplaces pay dividends many times over. It is the employees on the front lines who best know what their agencies need to be successful. Involving employees, both individually and through their unions, in decisions about their workplaces gives them a strong sense of commitment and a desire to make their workplaces as efficient as possible.

Questions from Congresswoman Davis:

1) Based on your organization's experience with the flexibilities that Congress provided for the IRS recently, do you think those flexibilities could be profitably extended beyond the IRS? Also, the law now requires that certain of those flexibilities – streamlined demonstration project authority, performance management systems, position classification and pay cannot be used by the IRS for bargaining unit employees unless the union agrees. Have there been any impasses with management in this area?

As you know, the IRS was provided with the ability to implement certain personnel flexibilities as part of the IRS Restructuring Act of 1998. The act also required that the union and agency negotiate the application of flexibilities prior to their implementation for bargaining unit employees - a provision NTEU strongly supported. NTEU continues to believe that the collective bargaining process is invaluable in ensuring that both management and employees understand the nature of changes that are being proposed and are committed to the success of such changes. If similar flexibilities are extended to other federal agencies, NTEU believes the collective bargaining process must be used to implement such changes effectively.

NTEU has for several years now enjoyed a positive working relationship with the Internal Revenue Service. We are currently negotiating with the IRS on recruitment and retention bonuses and the development of a foreign language assistance program. This is expected to be a demonstration project that will be forwarded to the Department of the Treasury and the Office of Personnel Management for review following IRS-NTEU negotiations. We have not reached impasse with IRS management on any personnel flexibility issues.

2) Can the culture of the federal workforce be changed without changing the pay system, and what would be your specific suggestions in addition to higher salaries?

As you know, NTEU believes that a fair and equitable pay setting process must be established and adhered to. In addition, we believe that the federal government must begin investing in its employees – in their training and education and in recognizing their accomplishments. Without the proper training, everyone loses – customers do not receive the best service and employees do not find their work rewarding or challenging.

Too, the arbitrary quotas the Bush Administration has established for stripping federal employees of their jobs must be overturned by Congress. These quotas are hindering current employees' ability to perform their work and preventing prospective employees from considering employment with the federal government. And, health insurance costs are a key consideration for both current and prospective employees. The federal government pays substantially less toward its employees' health insurance premiums than most private sector employers with which it competes. It must become more competitive in this area.

RESPONSES TO QUESTIONS FOR THE RECORD FROM CAROL A. BONOSARO

Additional Questions Posed by Chairman Voinovich and Chairwoman Davis

Answers to Questions for the Senior Executives Association (SEA)

1. **Annual Increases**: ***Question – Does your organization believe that only awards and bonuses should be based on performance and that Executives, even poorly performing ones, should still get guaranteed annual raises?*** SEA believes in a pay for performance system and does not recommend that all executives automatically receive the same annual increase. SEA proposes that Senior Executives and all equivalent executives have the opportunity to receive the same annual increase to base pay that the General Schedule receives each year, regardless of the base pay cap. Whether or not the Senior Executive receives the increase would still be at the discretion of the individual executive's supervisor. The executive would be able to have the supervisor's decision to not grant the annual increase reviewed by the agency's Performance Review Board, which can offer a non-binding recommendation to the agency's deciding official. This does not add any appeal rights to the current process.

2. **Limit on Limited Term Appointments**: ***Question – In your experience, does the 5 percent limit now on limited term appointments result in abuses that we should be aware of? Has OPM failed to control the use of limited appointments? Why just 1 percent?*** SEA believes, with all of the proposed changes to the limited term appointment authority, that there needs to be a significant limit on appointments at this time. Since these are non-competitive appointments with a proposed extended period of appointment time (more than double the current amount of time) and a proposed expansion to the career-reserved positions that were not included in limited term appointments before, we propose keeping the number of appointments to the smallest number possible until the other newly implemented guidelines are tested.

3. **Loser Pays Legal Fees**: ***Question – Might one way to cut down on frivolous complaints that lead to private lawsuits against managers be to require that the loser pays the legal fees of the winner in this particular context?*** Yes, by changing the system to one where the loser pays may help to cut down on the frivolous complaints against managers. However, to do so would be a fundamental shift in how legal fees are paid. In addition, this does not address the issue of frivolous EEO complaints because there is no provision for "loser pays" in the EEO administration process at the current time to cover attorney's fees for these types of complaints.

4. **EEO Complaints**: ***Question – Would you advise that the Congress request a review of the EEO process by the General Accounting Office to ascertain exactly how the current EEO system operates and what should be done to achieve fairness and balance in EEO deliberations?*** Yes, a GAO report may be warranted to review the EEO process but many studies have already been conducted on this same topic. The EEOC appears to be aware of the problem and has started an effort to reform the system. However, at this time, managers are still facing the problem of having a case drag on over an extended period of time during which the manager is unfairly branded. Immediate relief is needed to protect these managers from the ramifications of frivolous cases by enacting the Manager's Bill of Rights advocated by SEA.

Answers to Questions for All Members of Panel III

1. **Compensation v. Opportunity to Make a Difference/Career Development**: ***Question – What do you see as your role helping us advance the proposals in the Federal Workforce Flexibility Act?*** SEA believes that while pay may not be viewed by some as an incentive, the absence of a meaningful pay system that differentiates among the good and the bad performers is a disincentive and encourages good workers to seek other places of employment. Our role will be to support Congress in creating a credible pay system for the federal government.

2. **Culture Change without Change to Pay System**: ***Question – Can the culture of the federal work force be changed without changing the pay system, and what would be your specific suggestions in addition to higher salaries?*** One specific recommendation to assist in a culture change is training. Managers need to be trained to work with their employees on performance plans, to deal with challenging employees before the problems escalate and to inspire their employees to go above and beyond. We believe that offering managers some training in working with their employees will lead to a more productive and more satisfied workforce. We cannot expect managers to know on their own how to deal with all the facets of employee issues. Training is essential to the manager's success. Agencies must also be required to fund training and to make it a priority. We have also proposed a Manager's Bill of Rights to encourage managers to overcome the reluctance to act that accompanies the current work environment with so many employee rights. This Manager's Bill of Rights allows managers greater information about and participation in the EEO process when a subordinate files an EEO complaint. It also allows a manager to receive awards that may have been denied because a complaint was pending.

Comments on Questions for Other Witnesses

1. **Question for Mr. Walker Regarding Part Time Work**: ***Question: In the Federal Workforce Flexibility Act, there are provisions to make it more desirable for individuals to work part-time at the end of their career. What other options might Congress consider to ease this transition?*** SEA strongly believes in a "phased retirement" plan such as one proposed by SEA. Phased retirement for career members of the Senior Executive Service (SES) and for Senior Level and Senior Technical personnel would allow agencies the flexibility to re-employ on a part-time basis senior managers and technical personnel, who would experience no reduction in annuity, to ensure an adequate transition period between the employee's retirement and the hiring of his or her permanent replacement.

Members of the SES and SLs and STs are highly experienced executives and technical experts who possess historical knowledge of their agencies' operations and procedures, and have demonstrated the ability to lead their agencies' programs. Current projections show that more than two-thirds of Senior Executives will be eligible to retire over the next five years. The loss of such a significant number of the government's career leadership is a serious problem for many agencies, since they rely on the experience, knowledge and expertise of these individuals to satisfy their mission requirements.

Concern about the loss of such employees prompted the IRS to seek relief from the Office of Personnel Management by requesting a waiver from the retirement offset restrictions so that the

IRS could re-employ annuitants with unusually high technical qualifications to support critical mission requirements. In addition, the Department of Defense sought and received statutory relief to the retirement offset for the re-employment of regular military officers to the civil service. After 9/11, the Office of Personnel Management relaxed application of these restrictions. We propose to allow agencies to make this decision but with limits, especially in light of the impending retirement boom.

SEA proposes that agencies be given authority for phased retirement, under circumstances deemed appropriate by the individual agencies, thereby providing greater flexibility that would allow agencies to make a smooth transition between their current cadre of retiring SES, SLs and STs and the employees who will serve as their permanent replacements.

2. **Question for Mr. Blair Regarding SES Appeal Rights**: ***Question: Does OPM believe that Senior Executives should have appeal rights to MSPB if their pay is reduced above, say a fixed percentage, within the wide single pay band that would cover the entire range of Executive's pay. If not, why not?*** SEA's proposed safeguards related to a 3% reduction similar to what is currently in place. A pay level reduction (which now requires PRB review) is approximately similar to a 3% reduction combined with the denial of an annual increase (which we propose be subject to PRB review). Permitting pay reductions greater than one pay level is an option that does not currently exist. SEA strongly believes that for more significant pay decreases (greater than 3%) Senior Executives need to have to appeal rights.

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April 29, 2003

The Honorable George V. Voinovich
Chairman
Subcommittee on Oversight of Government Management,
The Federal Workforce, and the District of
Columbia
Committee on Governmental Affairs
340 Senate Dirksen Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

During my testimony on April 8 before the joint hearing of your Subcommittee and the House Government Reform Subcommittee on Civil Service and Agency Reorganization, you requested that I survey the Association's membership regarding the state of SES performance management systems currently in place in the agencies. I did so via an e-mail request to our membership, and 688 responded. The results are enclosed.

If you or your staff have any questions, or require further information, please do not hesitate to call me.

Sincerely,

Carol A. Bonosaro

CAROL A. BONOSARO
President

Enclosure

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2003 SES Performance Management Survey

Survey of Active SEA Members
Conducted via the web April 10 – 25

Analysis of 688 responses:

Does the SES performance management system in effect in your agency make meaningful distinctions between executives?

Yes	508	74.6%
No	173	25.4%

Does the SES performance management system in effect in your agency emphasize results and/or performance measures?

Yes	596	86.6%
No	92	13.4%

Does the performance management system in effect in your agency establish performance standards that are in line with agency strategic goals and objectives?

Yes	625	91.1%
No	61	8.9%

RESPONSES TO QUESTIONS FOR THE RECORD FROM KAREN HEISER

FMA Responses to Additional Questions from Chairman Voinovich

"The Human Capital Challenge: Offering Solutions and Delivering Results"
Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia
Senate Governmental Affairs Committee
April 8, 2003

What are the flaws in FEPCA that would need to be corrected in order to adequately address these problems?

Currently, the wage surveys conducted by the Bureau of Labor Statistics (BLS) to provide comparisons for locality pay increases required by FEPCA survey a geographic area as a whole, using wages from a variety of industries to determine the average wage earned in that area. However, there is no precise data collected on specific jobs and positions. This lack of detailed information has created a situation where different pay gaps exist for similar positions in the public and private sectors, with an overall wage gap of 33 percent.

In order to alleviate these types of disparities, locality pay should be reviewed to determine where exactly these disparities occur – in particular examining wage discrepancies between positions, not simply geographic location. Further studies should be standardized jointly between the Office of Personnel Management (OPM) and BLS to extensively review wage areas and conduct true market wage surveys as the basis for future application of a consistent and uniform locality pay system.

What types of incentives do you suggest would assist the government in attracting these individuals (younger, more mobile employees)?

In order to attract a younger and more mobile Federal workforce, the Federal government must dramatically increase the speed of the hiring process. While OPM has achieved some measure of progress in this arena by updating and streamlining its job-hunting Web site (www.USAjobs.gov), further improvements are needed. Nonetheless, the Federal government must continue to take greater advantage of technological advances – specifically the advent of the Internet – to streamline its hiring process.

Currently, many job descriptions found on this Web site are about 15 pages long – far too protracted for today's generation of job seekers. As a point of comparison, if a Fortune 500 company is able to list a job description on 1-2 pages, the Federal government ought to be capable of the same, especially for its entry-level positions.

Instead of requiring all interested applicants to supply the information that is requested as part of a 15-page job description, OPM and Federal agencies should only demand this extensive information of those applicants who will be interviewed for a given position. This will not only lead to a higher number of initial applicants from a diverse pool of talent – who may have been deterred from applying as a result of a lengthy job description – but it will shorten the amount of time that Federal human resources professionals spend reviewing applications submitted by applicants.

On the back end, Federal agencies must also curtail the response time to applications and resumes received. Members of today's job-seeking corps are not willing – and in many cases, cannot afford – to wait months to hear back from Federal agencies. College graduates today are burdened with massive student loan debts amid a struggling economy, and thus simply have no choice but to accept another position while waiting three, four, sometimes six months on a pending Federal application.

One common complaint from our members who are responsible for hiring prospective employees has been that with the existing automated systems, "keywords" tend to return an overwhelming number of "hits" with

applications – and qualifications – that are not suitable to the position in question. Search engines need to be programmed so that searches are narrower in scope in order to select those applications and resumes with qualifications that fit the description for the vacant position. This would reduce the amount of time that hiring personnel must spend reviewing unsuitable applications.

Another untapped resource in the area of Federal recruitment is the expanded use of job fairs on college campuses to target specific high-need skills. The private sector has mastered this tool to fill their pipeline of talented workers; the Federal government ought to do the same – which, if nothing else, would serve to educate college graduates about the many rewarding aspects of public service.

This leads to the importance of student loan forgiveness as a recruitment tool for the Federal government. FMA would like to see this benefit extended to those seeking graduate degrees as an additional recruitment and retention tool. According to a recent survey of third-year law school students by the Partnership for Public Service, Equal Justice Works, and the National Association for Law Placement, law school debt prevented 66 percent of student respondents from considering a public interest or government job. The GOFEDS legislation is a good kick-start to this dilemma, as it would increase the amount of the student loan forgiveness benefit by relieving Federal employees of the obligation to pay income tax on the money Federal agencies provide them.

Federal agencies also need to place greater emphasis on the recognition of their high-performing employees. Currently, many Federal workers feel as though their efforts and work go unnoticed and therefore unrewarded. While monetary rewards are tangible forms of recognition, there are other rewards that can be equally effective, such as increased training opportunities and individualized professional development – all of which benefit an employee's career as well as the output of the organization.

Younger employees need to feel that there is adequate attention placed on individual professional growth and career advancement within the Federal government. While it is true that today's workforce is more mobile and the notion of the career civil servant is more and more remote, it does not mean that all prospective Federal employees are looking to join the Federal workforce for a brief period and then leave. Most workers today are placing a high premium on opportunities that will allow them to continually learn and increase their skills and expertise. If Federal agencies provide employees with proper training, recognition, and ongoing career development, retention rates will undoubtedly increase.

The Federal government should move away from across-the-board annual raises and move toward performance-based salary increases. To today's generation of younger workers, the idea of across-the-board raises is foreign and maligned. This is for some a deterrent to working for the Federal government. Across-the-board raises tend to give the impression that individual work is not recognized or appreciated because all employees, regardless of performance (as long as it qualifies as "acceptable"), will receive the same annual adjustment. For those who possess a greater sense of individual responsibility and performance, they expect to be evaluated on – and rewarded for– their individual achievements.

What do you see as your role in helping us advance these proposals (linking training activities with performance plans/ career development) through Congress?

The Federal Managers Association and its membership can play an essential role in advancing these proposals, such as those introduced by Chairman Voinovich and Chairwoman Davis. It is the management ranks of the Federal government that were hit hardest by the "reinvention" initiatives of the 1990s. It is also members of the management cadre that are increasingly being enticed and snatched away from public service by the more market-sensitive and training-intensive private sector.

As Federal managers and supervisors, many of our members are nearing retirement age and/or are entertaining more lucrative opportunities in the private/non-profit sector. In order to understand what goes into their decision to either remain in or leave public service, Congress needs to hear first-hand testimonials. We at FMA applaud Congress for their interest in the past several years on the state of the Civil Service,

and hope that this attentiveness will persist as we seek to overcome the human capital crisis. Toward this end, we would also like to praise OPM for their recent Federal Human Capital Survey, and urge that these types of detailed surveys be conducted regularly throughout the Federal government so that we can all keep a pulse on the concerns of the 1.8 million Federal employees. This type of ongoing feedback provides an invaluable tool for Federal managers, who are looking for ways to best utilize the skills of an extremely talented workforce for the betterment of their respective organizations.

The private sector for years has understood the need to train its employees and provide opportunities for career advancement. This is why, as mentioned in our testimony, FMA has prioritized the creation of *The Federal Managers Practicum* — a targeted certificate program for Federal managers. As the official development program for FMA, *The Federal Managers Practicum* helps FMA members develop critical skills to meet new workplace demands and enhance their managerial capabilities.

FMA has long recognized the need to prepare career-minded Federal employees to manage the demands of the 21st century workplace through its establishment of The Federal Management Institute, FMA's educational arm, which sponsors valuable professional development seminars and workshops. *The Federal Managers Practicum* is a unique, integrated development program that links professional training and higher education – specifically created for the Federal career professional. Developed and taught by management experts, this comprehensive practicum integrates core program management skills including planning, analysis, budgeting, communication, evaluation, and leadership with functional skills and knowledge – providing a balance between theory and practice. The curriculum is anchored to the Executive Core Qualifications (ECQs) developed by OPM and Financial Management Core Competencies developed by the Joint Financial Management Improvement Program (JFMIP).

The membership of FMA will also be able to highlight the importance of management succession programs and the need to increase the attention placed on these programs. Through the rear-view mirror, one can plainly see that the lack of succession planning which occurred during the 1990s helped to spawn the human capital crisis currently facing the Federal government. If succession planning is not addressed immediately, the Federal government will find itself in another human resources disaster a decade from now, if not sooner – which will erode any progress we may have made with the future generation of Federal workers. FMA would like to join Congress in actively promoting the development of effective succession planning through the mentoring of a dedicated corps of future managers.

FMA Response to Additional Question from Chairwoman Davis

"The Human Capital Challenge: Offering Solutions and Delivering Results"
Subcommittee on Civil Service and Agency Organization
House Government Reform Committee
April 8, 2003

Can the culture of the federal workforce be changed without changing the pay system, and what would be your specific suggestions in addition to higher salaries?

Yes, the culture of the Federal workforce can be changed without changing the pay system – but that should by no means mitigate the desire to update the civil service pay structure, which most will agree is antiquated.

Reforming the culture of the Federal workforce can be accomplished if Federal agencies begin valuing and investing in their employees by increasing and improving opportunities for career advancement, employee training, and educational initiatives such as student loan repayment for new Federal employees and the payment of tuition for advanced degrees for current Federal workers. These are increases in benefits that could, and should, be used as recruitment and retention alternatives to increasing salaries. Overall, the public sector needs to shift more visibly to an image of a performance-based institution. A major factor in improving both performance and effectiveness is the true empowerment of all sectors of the Federal workforce, including the managerial and the employee ranks of the Federal workforce.

In order to become more competitive with the private sector, the Federal government should also augment its share of premiums for the Federal Employees Health Benefits Program (FEHBP). On average, private sector employers contribute 83 percent of an employee's health insurance benefit while the Federal government currently pays an average of 72 percent. Congress should pass H.R. 577 and S. 319 introduced by Rep. Steny Hoyer (D-MD) and Sen. Barbara Mikulski (D-MD), respectively, which seek to raise the government's contribution toward FEHBP premiums to 80 percent.

Finally, government leaders need to, once and for all, take the side of the Federal employee. It is time for all of us to encourage the youth of this nation to join the Civil Service. The positive support and reinforcement from current and future administrations and Congresses will serve to accelerate the replacement of outgoing civil servants.

For FMA, this entails working with both the Administration and Congress to alter the image and perception of the civil service. Far too often, civil servants have unfairly taken the brunt of the blame for ill-advised policies that they had no control over. The public must recognize the important duties our Federal employees perform each and every day on their behalf. Yet we often hear stories of blame being assigned to these public servants, rarely about the successes that occur on a daily basis. It is this misperception that continues to plague the greater part of the American public and prevents prospective civil servants from truly understanding – and appreciating – the critical functions and missions of the Civil Service.

We must collectively do a better job of marketing public service… and the first step is to repudiate the negative myths and stigmas associated with government work from the top down.

Responses by Hannah Sistare, National Commission on the Public Service to
Additional Questions from Chairwoman Davis
April 8, 2003

Panel 4:
Question #1 for Hannah Sistare: You have noted in past testimony that of the 700,000 employees who were rated in 2001 using a pass/fail system, only .06% failed. Managers will probably be reluctant to make the meaningful distinctions between employees that will be necessary for a "pay for performance" system. Some employee organization have expressed opposition to a "forced distribution of performance appraisal ratings," or grading everyone on a bell curve. Can you have an effective pay for performance system without requiring the use of a bell curve distribution of results, especially when you are working with a finite amount of money?

Pass/fail ratings will not support a pay for performance system. Additional gradations are necessary to separate the superior from the average from the less than satisfactory. While a rigid bell-curve is not necessary to implement a pay for performance system, that type of system rests on two realities: (1) Not everyone performs at the same level and (2) A way to maintain superior performance and to improve average performance is to use pay as a reward for the former. Thus, the answer to your specific question is that reality dictates that there be gradations of ratings and some spread across them. The current system penalizes, rather than supports, managers who try to give meaningful ratings.

Question #2 for Hannah Sistare: In your testimony you have noted the need to improve pay for senior executives, judges and other high-ranking officials. However, the average American worker who might be struggling to pay their bills would look at the current pay of these individuals and see an amount that they would equate with a very comfortable lifestyle, coupled with good job security. There are obviously a number of non-economic rewards in these high-ranking jobs. For instance, a federal judge enjoys a job with a great deal of intellectual challenge, they have lifetime tenure, and they enjoy the respect of the

community. Is it unreasonable that they be content with a salary that most American would consider quite generous?

The problem that was described to Commission by the Chief Justice William Rehnquist and Associate Justice Stephen Breyer is that federal judges, and those who we most want to become federal judges, are not being content. Sitting judges are resigning, or retiring without taking senior status, for the purpose of increasing their earnings. Also, while the evidence presented is anecdotal, there is widespread belief among those close to the judicial selection system that the best legal minds, including those with important experience, are declining to serve.

These realities are also impacting the ranks of the career executives. As the Commission's report states, "[e]xcellence in government performance requires excellent leadership. We must be willing to pay enough to bring such leaders in the pubic service and to keep them there."

To attempt to mitigate concerns that might be raised by the average worker, the Commission suggested that the compensation of senior government officials be based on that of people with comparable responsibilities in the non-profit sector. These salaries are generally considerably lower than their profit making counterparts, but still give the government stiff competition for talent.

Finally, the salaries of these top officials will have to increase considerably for them to even catch up with where they were relative to the rest of the workforce. Compensation of judges, Members of Congress and top executives have declined relative to the rest of the national workforce.

Questions for Stier/Kelman/Sistare

The task of setting up a government-wide pay for performance program is indeed "mind boggling." Some considerations that can make it less so are:

- The federal government has already demonstrated that it can run a complicated, multi-faceted pay system. Considerable talent and work goes into determinations related to the classification system, the locality pay system and systems in the agencies with their own flexibilities.

- The General Accounting Office has done much work already in this area. David Walker, in his testimony, appeared confident of their ability to assist in developing viable systems.

- The Office of Personnel Management has also spent time working on developing a system and is expected to produce one for the new Homeland Security Department within the year.

- Witnesses at your April 1 hearing expressed the view that the SES has characteristics that will make it a good place to develop a prototype pay for performance system. Once a viable system is in place and operating, the distrust and concern that now exists should dissipate. Much of the concern that was expressed at the Subcommittee hearings stems from the fact that no system has been proposed. Allowing stakeholders to examine and comment on a proposed system before it is implemented would definitely help allay concerns.

- Pay for performance is the standard in the private sector, and systems there provide a great source of best practices. Groups such as the Private Sector Council, a private non-profit association of skilled business people, can assist the government in adopting and adapting existing systems.

Paul Volcker and the Commission as a whole felt strongly that federal pay should be market and performance based they would support all efforts to move toward that type of system and away from the current one where time in service and geographic location are the main determinants of the allocation of billions of dollars every year.

Two other protections which the Commission saw as critical to a performance based system and to the hiring and other personnel flexibilities recommended throughout its report are (1) managers who are well qualified and well trained to run the system and (2) strong oversight by the Executive leadership and by Congress.

Finally, greater mission clarity and more mission-centered government organization will greatly assist in the task of establishing agency goals and objectives. Clear goals and objectives are of course necessary if employee performance is to be measured against them.

Additional Questions from Senator Voinovich
Hannah Sistare, National Commission on the Public Service
April 8, 2003

Q: Based on the Commission's recommendations, do you think our legislative strategy is on track or should we be more ambitious in our approach?

As is clear from the Commission's report, the Commission was and is very supportive of the work you have done to reform the public service. The measures you moved to enactment last year are listed in the Report and one of the four interim recommendations made by the Commission is that this work and related work by OPM continue.

However, the Commission also was convinced that the critical demands on our government, and its inability to meet many of them, demand bold solutions. Thus it was willing to recommend significant changes where it felt significant change was needed. This is particularly true of the recommendations to reorganize government within mission-centered departments and to replace the general schedule and the classification system with systems that work for the needs of the individual agencies. While it will be the work of many years, the Commission feels strongly that that work must begin.

Q: The Commission also recommended that government pay be tied to performance. The SES compensation bill introduces pay for performance to the Senior Executive Service. If this legislation is successful, I would hope that we could initiate and pass a government wide pay reform bill. What do you see as the benefits and barriers to government wide pay reform?

The Commission called for two types of pay reform. First, it recommended market based pay (relative to the private sector) for the federal workforce generally. As noted by OPM in its White Paper on pay, modern compensation systems base pay on comparable positions and people in the market. It also recommended substantial increases in pay for government's senior executives, in all three branches, based on comparable non-profit sector compensation. These changes will allow government to compete to get and keep the talent it needs. Barriers to this reform will be concern that the government cannot afford it and, particularly in the case of senior

officials, concern that the public may not be supportive. Presidential and Congressional advocacy can help mitigate both these problems.

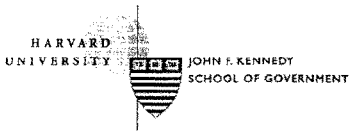
The other key pay reform recommended was that pay be performance based. The Commission believed that a pay for performance system would in fact increase government performance. They were convinced that a performance based pay system could in itself help reduce the "poor performer" problem. And not at all incidentally, the Commission believes that enhanced government performance will lead to an increase in the level of public trust in government.

Barriers to pay for performance were very much in evidence at the Subcommittee's April 8 hearing. Mistrust, lack of understanding of how the system will operate, limited details provided about the proposal, and concern that it is beyond the current capabilities of the government to administer, were the main ones. As I testified at the time, pay for performance is an important reform and David Walker proposed a process for effectuating it that could bring down some of these barriers.

Q: Based on a promise I made to Senator Thompson, your former boss, I also introduced the Presidential Appointments Improvement Act of 2003 last week. I am pleased that Congresswoman Davis introduced a companion bill in the House. I am hoping that this unified approach, which was lacking last year, will enable us to pass the bill. What recommendations did the Commission make to improve the Presidential appointments process?

The Commission endorsed the Presidential Appointments Improvement Act. Commission Recommendation 8 states: "Congress should undertake a critical examination of 'ethics' regulations imposed on federal employees, modifying those with little demonstrated public benefit." In addition, the Commission felt that the need for reform in the appointments process overall was critical enough to make it one of the four steps it recommended for immediate action. This is stated in Commission Recommendation 5 and called for in its Interim Steps Toward Implementation: "The President and Congress should develop a cooperative approach to speeding and streamlining the presidential appointments process."

RESPONSES TO QUESTIONS FOR THE RECORD FROM STEVEN J. KELMAN



STEVE KELMAN
Weatherhead Professor of Public Management

QUESTIONS FROM CHAIRWOMAN DAVIS

Should new personnel systems always start as demonstration projects?

There are two reasons to start new personnel management approaches as demonstration projects. One is that we simply don't know enough about the effects of an alternate system, so we use demonstrations to test effects (and compare them with the current system). A second reason is as a change management philosophy – changes are often less threatening when done as pilots, and their expansion becomes easier to accept, especially if they've been successful. There is, however, a danger with pilots as well, which is to dilute the ability to take advantage of pressure for change. Sometimes pilots are used to diffuse pressure for more fundamental and broader reform, in the hope that, by the time the pilot has expired, the pressure for change will have gone away, allowing a largely unreformed system to continue.

For this reason, I am hesitant to draw the blanket conclusion that changes should always begin as pilots. But I think that in most cases, particularly for more far-reaching changes (as opposed to specific interventions changing specific, more narrow statutory provisions – such as, for example, the provision allowing better annual leave accrual for mid-career entrants into federal service – a pilot approach is generally the best.

Implementing Pay for Performance

As a general matter, I have no problems with agencies customizing their hiring and bonus systems. Most federal cabinet agencies are themselves the size of Fortune 500 corporations, and in my view we shouldn't see "the federal government" as a monolithic organizational entity, with the same HR practices, any more than we should see "Fortune 500 America" as a monolithic entity. Agencies may want different systems to reflect the nature of their workforces, the tasks the agencies do, the people they are trying to recruit, and their cultures. There should probably be some overarching rules, just like we have statutes that set bounds for HR practices in private corporations in general, but we shouldn't expect that "one system" is a good idea.

We do need to be careful about implementing pay for performance, lest it actually produce lower rather than improved performance. I have discussed some of these issues in an article I have written for the May 2003 issue of Government Executive, which I will forward to the Committees when it appears. On balance (though this is not the perfect system) I favor group-oriented bonuses tied to meeting objective organizational performance goals taken from an agency's or subunits GPRA performance metrics.

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Recruiting Outstanding Young People

There exists a coop program for college students that also allows an agency to do direct hires of coop students. I believe the government dramatically underutilizes this program and that perhaps the Committees might want to discuss this in subsequent hearings.
There are a number of reasons to expand the coop program. First, it is my definite impression that the government has gone much too far in reducing clerical-type positions. Journeyman and managers at the GS12-15 levels are, in many agencies, spending far too much time xeroxing, running down material, doing simple fact-gathering/research, and engaged generally in non-professional tasks. This is work that college students, or in some cases high school students, could help with. Students who perform well can be encouraged to transfer into agency jobs upon graduation. And the agencies can observe which students do their jobs well and that they would want to hire. This is a potential win-win.
I also believe that there is often a greater interest in public service, and a more positive attitude towards government and government jobs, in minority communities. I believe the government should be doing much more proactive outreach to minority students, through student organizations and targeted recruiting at, for example, historically black colleges and universities.
I hope that elimination of the rule of three, together with IT changes being pursued by OPM and spread of best hiring practices to other government agencies, will reduce the extremely frustrating delays in federal hiring. We also need to find ways to deal with the time that security clearances take and/or to make tentative hires, involving assignments not requiring security clearances, while waiting for security clearances.

How do we know are people practices are succeeding?
One way we know they are succeeding is that we see the government doing better improving its performance, as measured by GPRA performance information.
Overall performance, of course, is due to more than HR practices. We should also be looking for improvement on specific HR metrics, such as percentage of employees believing their work is valued, mission commitment, knowledge/commitment to agency goals/performance metrics, and perception of how outstanding/poor performers are treated.

QUESTIONS FROM CHAIRMAN VOINOVICH:

Student interest in federal employment
It's hard to know how much of the observed change is due to the economy. Certainly, fewer private-sector recruiters have come to the Kennedy School this year and last than in the past.

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Additionally, though, we are seeing a larger number of students express interest in jobs in the homeland security/counterterrorism/intelligence areas than in the past. Last year, for the first time (to my knowledge), some Kennedy School Masters in Public Policy graduates went to work for the FBI, including one student working on weapons of mass destruction. This suggests an impact from September 11. Additionally, two years ago the Kennedy School implemented loan repayment programs for graduates going into government, and that had an immediate positive effect on the percentage of our graduates going into government service – prior to the economic downturn and September 11. So this clearly plays a role as well. (The issue of student debt and its effect on the ability to do public service is a recurring theme in our student newspaper.)

I believe that, for whatever reason, a larger proportion of our graduates are right now going into government. Whether this trend continues after the economy turns up depends mostly on the quality of the job experiences students going into government have. As Paul Light has emphasized many times, surveys of PMI's show very mixed experiences with the quality of their government jobs. If these jobs are attractive, word will spread, and we can create a virtuous circle. If these jobs are bureaucratic and confining, people in them will leave, and others won't take their places unless there are no other choices.

Congressional role beyond current legislation in encouraging recruitment and retention

The highest priority is to make more federal jobs more meaningful and engaging, give younger people a genuine role in policy formation and execution, give younger people more responsibility and authority. This can't be mandated by legislation, but Congress can help.

First, resist the temptation to conduct oversight oriented towards scandal. This encourages creation of more rules, more clearances, more bureaucracy that makes government jobs less appealing.

Second, encourage emphasis on performance measurement/GPRA in the agencies. Anything that makes agencies more results-oriented will make federal jobs more attractive to outstanding young people.

Third, support efforts to reduce unnecessary bureaucratic rules in areas such as HR, procurement, and budgeting. Work with appropriators to develop budgeting systems that reduce perverse incentives against saving money and that micromanage agencies. The Administration has a good record in the HR and budgeting areas on these flexibility issues, but a poor record in procurement, where efforts are underway to eliminate flexibilities that have already been established.

Fourth, direct attention, and encourage OPM and the agencies to direct attention, to better training for first-line supervisors, a real area of weakness in the government.

Fifth, hold oversight hearings, like the one Senator Voinovich held some time ago on total quality management, praising/highlighting agency efforts to develop more engaging jobs.

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RESPONSES TO QUESTIONS FOR THE RECORD FROM MAX STIER

"The Human Capital Challenge: Offering Solutions and Delivering Results"

Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Senate Governmental Affairs Committee and Subcommittee on Civil Service and Agency Organization, House Committee on Government Reform)
April 8, 2003

Questions from Senator Voinovich for Mr. Stier:

1. **When you talk to students and stakeholders about the importance of public service do you get the sense that the perceptions of federal employment are changing?**

   Answer: Yes, and in a positive direction. Beginning with the tragic attacks of September 11, 2001, through the recent and successful conflict in Iraq, the quick, dedicated, and successful response of the federal government to a number of national and international challenges appears to have heightened public appreciation for the value of public service. In addition, the current economic downturn and the corresponding increase in the unemployment rate, have combined to make federal employment opportunities more attractive to more people. That's the good news.

   A closer examination, however, suggests that if the goal is to attract not just qualified individuals to federal employment but to attract some of the best, the brightest, and the most motivated individuals for the jobs to be done, then the picture is still not as bright as it should be. The federal workforce is disproportionately professional and administrative as the percentage of jobs that are clerical or blue-collar continues to decline or to be contracted out. Among some of the more desirable candidates in the national labor pool--including those in science, engineering, law, accounting, and contract management--the federal government is still not seen as an employer of choice. In some cases this is due to a federal hiring process that is all too often accurately seen as slow, cumbersome, and unfair. Some of the best candidates who have multiple employment options simply do not bother. In addition, while the federal government offers competitive salaries for some occupations in some areas, it still lags significantly behind for others.

   Highly motivated individuals also want to work in high-performing work environments where their accomplishments will also be recognized and rewarded. Once again, the federal government loses to the private sector and to the non-profit world in terms of perceptions in this regard. Finally, while the economic downturn has also depressed turnover rates in the federal government as retirement-eligible individuals delay their departure and there are fewer resignations as the private or non-profit sectors decrease hiring, all indications are that once the economy improves and as the "baby boomers" take their deferred retirements, the federal government can once again find itself scrambling for needed talent. The federal government should act now to attract and hire some of the best talent available, it also needs to focus on the future by improving its image as an employer. It can do the latter by fixing the hiring process and improving the work environment.

2. **In your assessment, are agencies in a better position to recruit and retain a 21st century workforce than they were when the partnership was first formed?**

   Answer: Yes, but for the reasons noted in our response to the preceding questions, this improvement is likely to be temporary unless some actions are taken to improve both the federal hiring process, the inflexible compensation system, and the federal work environment which needs to become a high-performing environment.

3. **In addition to the legislation we are discussing here today, what other steps can we take in Congress to help agencies hire the right people, with the right skills, at the right time?**

   Answer: While much of the human capital legislation that is currently being debated—as well as some that has recently been passed—has the potential to make a very positive difference, the resource issue still looms large. For example, although there is little disagreement regarding the importance of training and development both in terms of keeping employee skills up to date and also as a way to retain high-performing employees who particular value development, many federal agencies continue to deal with tight budgets through cutbacks or elimination of training budgets. There are numerous examples of other useful recruitment or retention tools, such as student loan repayments, that go largely unused due to the lack of funds. Some consideration in the appropriation process with regard to adequate funding of worthwhile human capital initiatives would be most useful.

   One other item that would be useful has to do with the top leadership of each agency, i.e., the Administration's appointees. There is considerable evidence to suggest that the presidential appointments process has been quite unwieldy resulting in extended delays in filling some key positions in the agencies. The recent report of the National Commission on the Public Service "Urgent Business for America: Revitalizing the Federal Government for the 21st Century," does a good job of outlining the issue and developing some recommendations. We think that some attention to this issue would be of definite help to the agencies that need to have the right people, with the right skills, and the right time in all of their critical positions.

Questions From Chairwoman Davis for Mr. Stier:

1. **You mention in your testimony the importance of the Chief Human Capital Officers (CHCO). What qualifications should agencies look for when selecting these officers? What should the priorities of the CHCOs be once established in their agencies?**

   Answer: OPM's memorandum to agency heads dated April 18, 2003, on the subject of "Chief Human Capital Officers and Council," contains a CHCO "competency profile," that is fairly comprehensive and with which we agree. In particular, we think it important to note, as OPM does at the outset of the profile, that an effective CHCO brings "...a mix of executive leadership and human resources (HR) competencies. The leadership skills are

paramount."

Once established, a priority for each CHCO should be the development of the agency's human capital strategy as part of its overall strategic plan under the Government Performance and Results Act (GPRA). Close behind and connected to the agency's human capital strategy, is the development and implementation of a workforce planning and deployment plan that focuses on identifying agency workforce needs and developing effective strategies for meeting those needs. Clearly the CHCO plays a major role in developing and communicating, in concert with other agency leadership, the larger workforce management vision, values, and direction.

2. **Your testimony addresses a critical factor in the success of any human capital reforms: leadership. Without competent and committed leaders at senior levels across government agencies, human capital change efforts will fall short of their potential. What steps should be taken to ensure we have leaders who understand the importance of people management to achieving agency goals and objectives?**

   Answer: Leadership at the senior executive service level in each agency is indeed crucial and there are several challenges here, including the fact that the majority (approximately 70 percent) of current senior executives will be eligible to retire within the next few years and relatively few agencies have engaged in any meaningful succession planning efforts over the last several years. First of all, therefore, federal agencies should determine what their leadership needs will be after factoring in anticipated turnover and any new programs or priorities and they need to develop a robust strategy for meeting that need with the very best talent available.

   Second, developing a good leadership cadre starts with the initial selection of individuals as lower level supervisors and managers since well over 90 percent of federal senior executives are selected from among current federal employees. Too many federal organizations still tend to promote their best technical staff to supervisory positions without first determining whether they also possess the attributes, including "people skills," needed for success as managers and supervisors. Selection of individuals into the senior executive service should be based in some considerable part on a proven track record of success in managing an organization's human capital.

   Third, after selecting individuals into a managerial position or after identifying them as potential leaders (e.g., by competitive selection of an individual into a candidate development program), federal agencies should also be ready to invest in leadership development and not simply assume that individuals will grow and prosper on their own.

3. **Do you have any examples of a state or local government that has effectively implemented performance measures, and then effectively linked employee pay to those performance measures?**

Answer: The Partnership does not have specific examples at this time, but we will report back to the Subcommittees as we do more research into state and local practices in this area.

4. **Employee organizations have indicated in prior testimony that when 64% of federal employees report that they are satisfied or well satisfied with their pay, they are probably speaking defensively, and are actually communicating that they prefer the status quo to the President's pay for performance proposals. How would you respond to that assertion?**

   Answer: Reading that much into the response falls into the realm of unsubstantiated speculation. I do not think that one can determine from the employee responses to that particular question what federal employees think about the President's pay for performance proposals. It may simply be that close to two-thirds of federal employees think they are adequately compensated for the work they do.

ADDITIONAL QUESTIONS FROM SENATOR VOINOVICH

QUESTIONS FOR MR. TAYLOR:

Last week, I reviewed all the federal jobs located in Ohio that were posted on the USAJOBS Web site and I was surprised to find 78 pages of jobs listed. After looking over the material, it is evident that the USAJOBS website contains the most comprehensive and up-to-date information on current federal job openings. But I must admit despite the amount of information available, I was a little frustrated with the way in which the material was presented. I've also heard horror stories from applicants having to wade through 15-20 pages of instructions in order to apply for federal jobs, only to have their application completely ignored once they submit it. I understand that Monster has entered a contract with OPM to help improve the "look and feel" of the Web site.

- Can you explain what Monster will do to improve the Web site?

Monsters contract involved a lot more than just improving the "look & feel" of the web site. OPM has totally outsourced the job-seeker facing components of the Federal Governments recruiting web sites (as part of the Recruitment One-Stop eGov initiative) .Monster has taken over the entire operations of the following;

- USAJOBS web site
- Studentjobs web site
- USAJOBS by phone (interactive voice response application)

In the first 45 days since award of contract Monster has already made major improvements for both job seekers and agency recruiters using the site. Some of these improvements include;

Job Seeker Improvements

- Totally redesigned the user interface to leverage much of what Monster's best practice

o Dramatically improved the search engine to now include full-text searching and a more intuitive search interface

o Made the site available to people with disabilities through

- Ensuring full 508 compliance

- Enabling the site to be speech enabled through a free plug-in

o Improved the job seekers career management tools

- Up to 5 resumes that can be used to apply to jobs

- Up to 5 cover letters that can be used to apply to jobs

- Up to 5 search agents that will notify them of new job opportunities

- Allows Job seekers to make their resume searchable by agency recruiters

- Job seekers can track all of their online applications

o Re-written and improved the USAJOBS by phone application

- Better text-to-speech engine

- Live operator support

- Advanced Speech recognition for improved navigation

- Streamlined navigation

Improvements for Hiring Agencies

o Real-time posting of vacancies (this used to occur through a nightly batch process)

o Ability to edit and delete vacancies themselves

o Improved user interface

o Resume mining to search a centralized pool of Government resumes

o Workforce automation tools to improve productivity of recruitment

o Better reporting and administrative tools

All of the above benefits were obtained within 45 days of contract award. We have now transitioned our focus in two major areas.

1) Integrating with staffing automation tools from the agencies.
This has significant benefits for both job seekers and the agencies.
Job Seeker benefits include;

o Ability to create one standard resume which can be used to apply to any agency vacancy (now each agency requires the job seeker to complete a separate profile).

o Applicants will not need to re-enter any information when they apply to vacancies.

o Applicants will be able to check the status of their applications from the USAJOBS portal

Hiring Agency benefits

o Reduction in operating costs

o Improved applicant flow resulting in higher quality hires.

o Improved productivity

2) Improving vacancy announcements

Monster is working closely with OPM to faciliate a radical government-wide change to vacancy announcements. A summary of the major changes include;

o Redesigning the way vacancy announcements are displayed to only show relevant information

o Making the detailed legal/regulatory statements available via hypertext links rather than including it in the body of every announcement

o Revising boilerplate vacancy announcement text to be more "user friendly"

o Developing a new tool to construct vacancy announcements that will result in higher-quality and more marketing focused announcements

- What is your timeframe?

The new site is ready for launch. We are waiting for a launch date from OPM.

We plan to have most of the staffing systems within the federal government integrated to the new USAJOBS system before October 2003.

We plan to have enhancements to the vacancy announcements released in phases beginning June 18th and completed by September 15th.

- What type of information are you collecting from federal agencies to help you in this endeavor?

We have established several working groups with representatives from many agencies to work with us on this initiative. We are collecting information about the different hiring practices that each agency undergoes. The most important thing that the agencies can give us to assist our efforts is their cooperation and participation. So far we are getting both.

ADDITIONAL QUESTIONS FROM CHAIRWOMAN DAVIS

Jeff Taylor: Would you please share with us the work you are doing with OPM to improve the USAJOBS website?

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Ultimately, however, won't fundamental revisions have to be made on the hiring processes in order to make hiring work better?

Absolutely - The work we are doing on Recruitment Onestop is addressing part of the problem, but ensuring that the process is improved is imperative to attracting and hiring a talented workforce.

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Is the problem with the current website simply a symptom of the greater hiring process problem, and will improving the website provide any significant gains without first more fundamental reforms to improving the process?

Issues with the current website are only part of the problem, however the web site is the face of the government to potential employees. The government can have the best recruiting processes and strategies in the world, however if it can't reach out to job seekers and sell the benefits of a career in government then improvements in process will be for naught.

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It appears that on-line job seekers tend to be relatively young, technology-savvy individuals. What are the young applicants looking for in an employer today? What should the federal government do to make itself more appealing to the new generation of professionals?

The advent of the Internet not only represented the biggest invention of the last half of the 20th century, but it also unleashed the Information Age across the world. The last decade in particular has brought tremendous resources devoted to the availability, access, and communication of information. Suddenly, all types of information were able with the click of a button. Additionally, the Internet represented a new way to talk to each other.

The Internet was shaped as a new technology tool, which immediately appealed to the younger

generation. They became some of the first adopters of email and then instant messaging, another form of communication. Students learned that they could obtain information for research papers much faster through Internet research. Often, children were in the ironical position of showing their parents how to use computers and the Internet. It became a new toy to the young generation, and they were eager to learn more about this new invention that has changed the world.

This technology-savvy generation are now young professionals in the workplace. They grew up with the Internet and have made it an important part of their lives: from education to communication to general information. As part of this, these young professionals have used the Internet as an important tool for many of life's tasks, including looking for employment. It is a natural extension of the utility of the Internet for them, which is why it is absolutely essential for the Federal Government to use the Internet to market their job opportunities to the young technology-savvy generation.

In terms of job opportunities, young people are looking for jobs that will provide growth, learning, excitement, stability, and financial compensation. Expectations for many young people has been re-set since the dot-com shakeout, when most sought lucrative salaries and stock options in hopes of becoming wealthy individuals. In today's market, stability and growth are two of the most appealing aspects of careers. The Federal Government needs to focus on their strengths when marketing to young people. Stability, growth, and learning are all words that can describe opportunities with the Government. Additionally, these opportunities can provide the excitement of a job that will ensure the safety and advancement of the United States. During these times of uncertainly across the world, Federal Government employees truly can make a difference, and now is the time to capitalize on patriotism across the nation for the United States.

The biggest problem right now for the Federal Government in recruitment is the unawareness of the job opportunities. The Government needs to market similarly to the private sector – show the clear-cut responsibilities of the job, the room for the growth, the benefits and compensation, and the security. The stigma of a boring Government job can be quickly lifted by marketing available job opportunities to young employees in the right places and in the right way. The Internet is the most effective tool to reach this young generation, incorporating an effective job description and easy way to apply, which will greatly impact the number of talented candidates who will see Government jobs in a whole new light. Make it simple. Make it clear. Post the job opportunities where the young professionals are searching ....and then, get back to them in a timely manner once they've applied.

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