Testimony

Before the Subcommittee on Federal Workforce, U.S. Postal Service and the Census, Committee on Oversight and Government Reform, House of Representatives

FEDERAL WORKFORCE

Human Capital Management Challenges and the Path to Reform

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Why GAO Did This Study

Strategic human capital management plays a critical role in maximizing the government's performance and assuring its accountability to Congress and to the nation as a whole.

GAO designated strategic human capital management as a government-wide high-risk area in 2001 because of a long-standing lack of leadership. Since then, important progress has been made. However, retirements and the potential loss of leadership and institutional knowledge, coupled with fiscal pressures underscore, the importance of a strategic and efficient approach to acquiring and retaining individuals with needed critical skills. As a result, strategic human capital management remains a high-risk area.

This testimony is based on preliminary findings of GAO's ongoing work on the classification system and a body of GAO work primarily from 2012 to 2014 and focuses on the progress made by OPM and executive branch agencies in key areas of human capital management, including: (1) how the GS classification system compares to the attributes of a modern, effective classification system, (2) the status of performance management and efforts to address poor performance, (3) progress addressing critical skills gaps, and (4) strategies to address human capital challenges in an era of highly constrained resources.

What GAO Recommends

Over the years, GAO has made numerous recommendations to agencies and OPM to improve their strategic human capital management efforts. This testimony discusses some actions taken to implement key recommendations.

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Human Capital Management Challenges and the Path to Reform

What GAO Found

Serious human capital shortfalls can erode the capacity of federal agencies and threaten their ability to cost-effectively carry out their missions. While progress has been made, continued attention is needed to ensure agencies have the human resources to drive performance and achieve the results the nation demands. Specifically, additional areas needing to be addressed include:

Classification

GAO's preliminary work has found eight key attributes of a modern, effective classification system, such as: internal and external equity, transparency, and simplicity. The attributes require trade-offs and policy choices to implement. In concept, the General Schedule's (GS) design reflects some of the eight attributes, but falls short of achieving them in implementation. For example, the GS system's grade levels provide internal equity by making it easy to compare employees in the same occupation and grade level across different agencies. However, the number of grade levels can reduce transparency because making clear distinctions between the levels may be nuanced, as the basis for them hinges on, for example, how officials determine the complexity of the work.

Performance management

Effective performance management systems enable managers to make meaningful distinctions in performance in order to reward top performers and deal with poor performers. In 2011, five agencies piloted the Goals-Engagement-Accountability-Results (GEAR) framework to help improve performance management. GEAR addressed important performance management practices, such as aligning individual performance with organizational goals. However, while Office of Personnel Management (OPM) officials said they are working with the Chief Human Capital Officer's Council to promote GEAR, it is unclear if any additional agencies have adopted the GEAR framework.

Critical skills gaps

Since GAO included identifying and addressing government-wide critical skills gaps as a high-risk area in 2011, a working group led by OPM identified skills gaps in six government-wide mission critical occupations including cybersecurity and acquisition, and is taking steps to address each one. To date, officials reported meeting their planned level of progress for three of the six occupations. Additional progress will depend on the extent to which OPM and agencies develop the infrastructure needed to sustain their planning, implementation, and monitoring efforts for skills gaps, and develop a predictive capacity to identify newly emerging skills gaps.

Strategies for an era of highly constrained resources

Agency officials have said that declining budgets have created the impetus to act on management challenges and a willingness to consider creative and nontraditional strategies for addressing human capital issues. GAO identified strategies related to (1) strengthening coordination of the federal human capital community, (2) using enterprise solutions to address shared challenges, and (3) creating more agile talent management that can address these challenges.

_____ **United States Government Accountability Office**

Chairman Farenthold, Ranking Member Lynch, and Members of the Subcommittee:

I am pleased to be here today to discuss some of the key human capital management challenges facing the federal workforce and what can be done going forward to ensure a top-notch civil service. As we have long reported, strategic human capital management plays a critical role in maximizing the government's performance and assuring its accountability to Congress and to the nation as a whole. Addressing challenges in areas such as disaster response, homeland security, economic stability, and numerous other complex and evolving issues requires a skilled federal workforce able to work seamlessly with other agencies, levels of government, and across sectors.

High-performing organizations have found that the full life-cycle of human capital management activities—including workforce planning, recruitment, on-boarding, compensation, engagement, succession planning, and retirement programs—need to be fully aligned and focused on the cost-effective achievement of an organization's mission. However, despite some noteworthy improvements in the federal government's management of its personnel in recent years, strategic human capital management continues to be a pervasive challenge that needs to be addressed.

The direct link between personnel management and organizational performance can be seen, for example, in a number of our recent studies that identified operational and other problems at various federal agencies. These problems include wait times at Department of Veterans Affairs medical facilities; management of oil and gas operations by the Department of the Interior; information technology management at the Social Security Administration; rail safety inspections by the Federal Railroad Administration; and acquisition management at the Departments of Defense and Homeland Security. All of these examples share a common problem: a breakdown of one or more human capital activities such as robust workforce planning or performance management.

Strategic human capital management has been a GAO high-risk area since 2001.[1] Since then, Congress, the Office of Personnel Management (OPM), and some individual agencies have made substantial progress

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

toward addressing the government's human capital challenges. For example, in 2002 Congress created the chief human capital officer (CHCO) position in 24 agencies to advise and assist the heads of the agencies with human capital efforts.[2] The same law created the CHCO Council to advise and coordinate the human capital activities of member agencies.[3] As we reported in February 2013, although progress has been made toward improving the government's human capital efforts, the area remains high risk because more work is needed to address government-wide mission critical skills gaps.[4]

Today's hearing is particularly timely as the General Schedule (GS) classification system—the government's primary method of defining and organizing federal positions and the foundation of the federal personnel system—approaches its 65th anniversary in October.[5] Almost since its inception in 1949, questions have been raised about the GS system's ability to keep pace with the evolving complexity and nature of federal work, and this hearing provides an important opportunity for Congress to review the GS system and consider how well it is aging.

My remarks today will focus on the General Schedule and the extent to which it has the attributes of a modern and effective classification system. I will also discuss some of the other key issues facing federal strategic human capital management including compensation, the status of performance management and efforts to address poor performance, the need to close government-wide mission critical skills gaps, and strategies to help agencies meet their missions in an era of highly constrained resources.

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[2]Chief Human Capital Officers Act of 2002, Title XIII of the Homeland Security Act of 2002. Pub. L. No. 107-296, 116 Stat. 2135, 2287 (Nov. 25, 2002).

[3]The CHCO Council now has 27 members who represent executive departments or multiple agencies (such as agencies within the intelligence community) or are designated by the Director of OPM, who chairs the council.

[4]GAO, *High-Risk Series: An Update,* GAO-13-283 (Washington, D.C.: February 2013).

[5]The GS classification system was established by the Classification Act of 1949 (Pub. L. No. 81-429, 63 Stat. 954 (Oct. 28, 1949)). Federal employees who are not white-collar workers are not covered by the GS system, but are instead covered by the Federal Wage System, which is a uniform pay-setting system covering federal blue-collar employees. These employees are paid a prevailing wage comparable to private sector rates in each local wage area.

Significantly, the results of our work on these topics point to one simple fact: Serious human capital shortfalls are eroding agencies' capacity and threatening their ability to cost-effectively carry out their missions. While some progress has been made in addressing these shortfalls, continued action is needed to ensure federal agencies have the human resource tools, flexibilities, and guidance required to drive performance and achieve the programmatic results the nation demands.

My observations on the classification system represent the preliminary findings from our ongoing work that we are doing at the request of this Subcommittee and the House Committee on Oversight and Government Reform. For that study we interviewed more than 25 subject matter specialists from think tanks, academia, government employee unions, and current and former high-level officials at OPM and agencies that have implemented alternative classification systems. The rest of this statement is based on our large body of work on federal human capital management issued primarily between June 2012 and May 2014, and is updated with more recent information as appropriate. Detailed descriptions of scope and methodologies can be found in the original reports. Both our ongoing work and completed work that this statement is based on are either being conducted or were conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

OPM Needs to Improve the Design, Management, and Oversight of the Federal Classification System

The GS System Could Better Balance Attributes of a Modern, Effective Classification System

The GS classification system is a mechanism for organizing federal white-collar work, notably for the purpose of determining pay, based on a position's duties, responsibilities, and difficulty, among other things. The GS system—which is administered by OPM—influences other human capital practices such as training, since training opportunities link position competencies with the employee's performance. In 2013, the GS system covered about 80 percent of the civilian white-collar workforce, or about 1.6 million employees.[6]

Several public policy groups and some OPM reports have questioned the ability of the GS system to meet agencies' needs for flexible talent management tools that enable them to align employees with mission requirements. In our ongoing work, among other things, we are assessing (1) the attributes of a modern, effective classification system and the extent to which the current GS system balances those attributes, and (2) OPM's administration and oversight of the GS system. Our preliminary findings from this work are as follows:

- While there is no one right way to design a classification system, based on our analysis of subject matter specialists' comments, related literature, and interviews with OPM officials, there are eight key attributes that are important for a modern, effective classification system. Collectively these attributes provide a useful framework for

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[6]To conduct our analysis of federal workforce trends, we used OPM's Enterprise Human Resources Integration (EHRI) Statistical Data Mart. EHRI (formerly Central Personnel Data File–CPDF) is the primary government-wide source for information on federal employees. The EHRI data we analyzed cover executive branch civilian employees, and do not cover the U.S. Postal Service, legislative or judicial branch employees, or intelligence agencies. OPM transitioned from CPDF to EHRI as of fiscal year 2010.

considering refinements or reforms to the current system. These key attributes are described in table 1.

Table 1: Attributes of a Modern, Effective Classification System

Internal equity: All employees with comparable qualifications and responsibilities for their respective occupations are assigned the same grade level.

External equity: All employees with comparable qualifications and responsibilities are assigned grade levels and corresponding pay ranges comparable to the nonfederal sector.

Transparency: A comprehensible and predictable system that employees, management, and taxpayers can understand.

Flexibility: The ease and ability to modify the system to meet agency-specific needs and mission requirements, including modifying rates of pay for certain occupations to attract a qualified workforce, within the framework of a uniform government-wide system.

Adaptability: The ease and ability to conduct a periodic, fundamental review of the entire classification system that enables the system to evolve as the workforce and workplace change.

Simplicity: A system that enables interagency mobility and comparisons, with a rational number of occupations and clear career ladders with meaningful differences in skills and performance, as well as a system that can be cost-effectively maintained and managed.

Rank-in-position: A classification of positions based on mission needs and then hiring individuals with those qualifications.

Rank-in-person: A classification of employees based on their individual skills and abilities.

Source: GAO analysis of interviews with subject matter specialists and OPM officials, and literature reviews. | GAO-14-723T

- While each attribute is individually important, there are inherent tensions between some attributes, and the challenge is finding the optimal balance among them. The weight that policymakers and stakeholders assign to each attribute could have large implications for pay, the ability to recruit and retain mission critical employees, and other aspects of personnel management. This is one reason why—despite past proposals—changes to the current system have been few, as it is difficult to find the optimal mix of attributes that is acceptable to all stakeholders.

In comparing the GS system to these key attributes, during our ongoing work we found a number of examples of how the current system's design reflects some of these key attributes but falls short of achieving them in implementation. As one example, the GS system includes 15 statutorily-defined grade levels intended to distinguish the degrees of difficulty within an occupation. Standard grade levels can simplify the system and provide internal equity.[7] Agency officials assign a grade level to a position after analyzing the duties and responsibilities according to the factor evaluation

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[7] 5 U.S.C. § 5104.

system.[8] This allows for easy comparisons of employees in the same occupation and grade level across different agencies, providing simplicity and internal equity to the system, and may help employees move across agencies.

However, having 15 grades requires officials to make meaningful distinctions between things like the extent of the skills necessary for the work at each level, which may be more difficult to determine in some occupations than others. For example, officials must be able to determine how the work of a GS-12 accountant is different from a GS-13 accountant. Making clear distinctions between these occupations may be nuanced, as the basis for them hinges on, for example, how agency officials determine the degree of complexity of the work. As a result, having 15 grade levels may make the system seem less transparent, as distinguishing between the levels may not be precisely measured by the elements of the factor evaluation criteria.[9] Otherwise agencies risk having two employees performing substantially equal work but receiving unequal pay, which decreases the degree to which the system can ensure internal equity.

We believe that, going forward, these eight attributes of a more modern, effective classification system can help provide criteria for policymakers and other stakeholders to use in determining whether refinements to the current GS system or wholesale reforms are needed.

OPM Has Not Conducted Oversight of Agency Classification Programs

OPM is required by law to review "from time to time" a number of positions in each federal agency to determine whether the agency is correctly placing positions in classes and grades according to OPM-published standards.[10] During our ongoing work, OPM officials told us that the agency stopped conducting oversight reviews in the 1980s

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[8]Most occupational series (which include descriptions, benchmarks and illustrations to inform grade level distinctions) use the factor evaluation system. However, some standards are written in a narrative that describes the nature of work and level of responsibility for each grade covered by the standard. This requires users or classifiers to look at work as a whole and select the most appropriate overall grade.

[9]Not all occupations comprise all 15 grade levels. The occupational category determines the grade levels covered by an occupational series.

[10]5 U.S.C. § 5110. Agencies are also responsible for classifying their own positions consistent with OPM guidance. 5 U.S.C. § 5107.

because it determined that the reviews were ineffective at overseeing agency compliance with the occupational standards. Specifically, officials said the reviews were time consuming and agencies did not agree with how OPM selected the position descriptions to review. OPM officials said agencies frequently contested the results of the reviews leading to another time- and resource-intensive review process for both OPM and the agencies. OPM officials said they rely on agencies' internal oversight programs to ensure proper application of the classification policies. However, OPM officials told us they do not review agency oversight efforts, nor do they know which agencies, if any, have robust internal oversight mechanisms.

OPM officials told us that in 2014 they had 6 full-time classification policy specialists tasked with maintaining the classification standards, compared to 16 that they had in 2001, and many more in the 1980s. OPM officials said that lower staffing levels limit the agency's ability to perform oversight. Based on our ongoing work, we believe that OPM, like all agencies, will have to make difficult tradeoffs between competing demands in this era of limited resources.

Creating a Results-Oriented Approach to Federal Pay

Compensation Has Remained Relatively Constant as a Proportion of Total Discretionary Spending

A key federal human capital management challenge is how best to balance the size and composition of the federal workforce so that it is able to deliver the high quality services that taxpayers demand, within the budgetary realities of what the nation can afford. Recognizing that the federal government's pay system does not align well with modern compensation principles (where pay decisions are based on the skills, knowledge, and performance of employees as well as the local labor market), Congress has provided various agencies with exemptions from the current system to give them more flexibility in setting pay. Thus, a long-standing federal human capital management question is how to update the entire federal compensation system to be more market based and performance oriented. This type of system is a critical component of a larger effort to improve organizational performance.

As we reported in January 2014,[11] between 2004 and 2012 spending on total government-wide compensation for each full-time equivalent (FTE)[12] position grew by an average of 1.2 percent per year, from $106,097 in 2004 to $116,828 in 2012 (see figure 1). Much of this growth was driven by increased personnel benefits costs, which rose at a rate of 1.9 percent per year. Other factors included locality pay adjustments, as well as a change in the composition of the federal workforce (with a larger share of employees working in professional or administrative positions, requiring advanced skills and degrees). In terms of employee pay per FTE, spending rose at an average annual rate of 1 percent per year (a 7.9 percent increase overall).

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[11]GAO, *Federal Workforce: Recent Trends in Federal Civilian Employment and Compensation,* GAO-14-215 (Washington, D.C.: Jan. 29, 2014).

[12]FTEs reflect the total number of regular straight-time hours (i.e., not including overtime or holiday hours) worked by employees, divided by the number of compensable hours applicable to each fiscal year. As an example, two employees working half time would be the equivalent of one FTE. Annual leave, sick leave, compensatory time off, and other approved leave categories are considered to be hours worked for purposes of defining FTE employment.

Figure 1: Overall Government-wide Spending on Pay and Benefits, 2004-2012
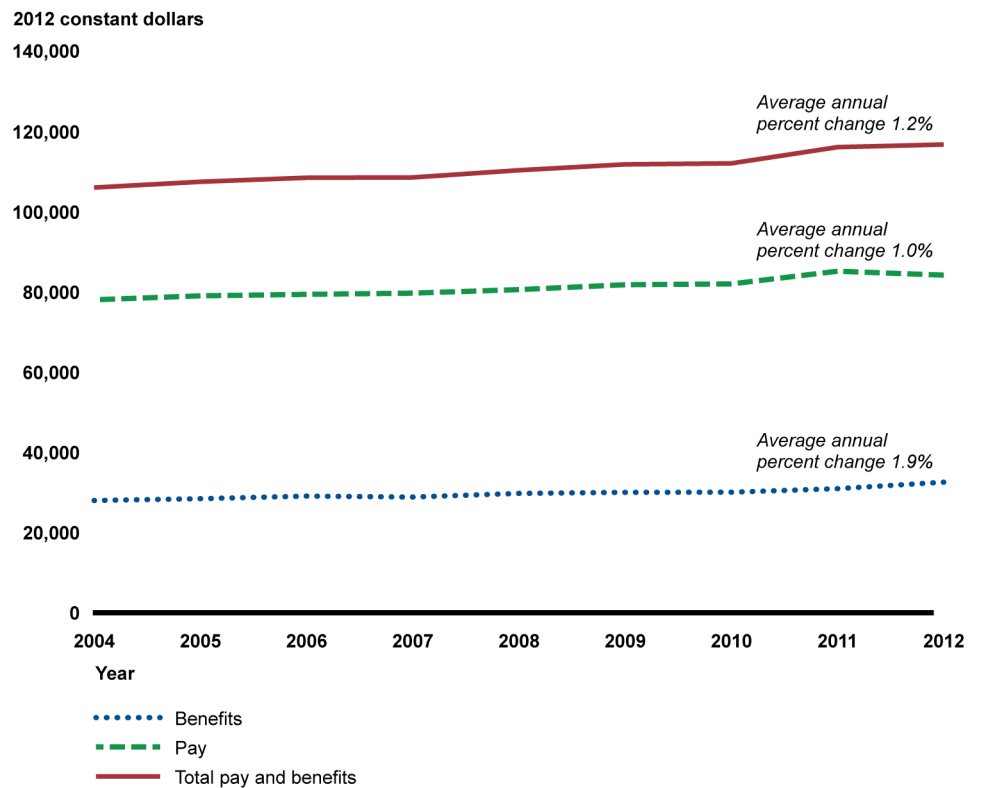
Source: GAO analysis of data from the OMB MAX Information System. | GAO-14-723T.

As we reported earlier this year, while spending on compensation increased from 2004 to 2012, it remained relatively constant as a proportion of the federal discretionary budget at about 14 percent from 2004 to 2010, with slight increases in 2011 and 2012.

The composition of the federal workforce has changed over the past 30 years, with the need for clerical and blue collar roles diminishing and professional, administrative, and technical roles increasing. As a result, today's federal jobs require more advanced skills at higher grade levels than in years past. Additionally, federal jobs, on average, require more advanced skills and degrees than private sector jobs. This is because a higher proportion of federal jobs than nonfederal are in skilled occupations such as science, engineering, and program management, while a lower proportion of federal jobs than nonfederal are in occupations such as manufacturing, construction, and service work. The

result is that the federal workforce is on average more highly educated than the private sector workforce.

Studies Comparing Federal and Nonfederal Pay Came to Different Conclusions Because of Different Methodologies

As we reported in 2012, the policy of Congress is for federal workers' pay under the GS system to be in line with comparable nonfederal workers' pay.[13] Annual pay adjustments for GS employees are either determined through the process specified in the Federal Employees Pay Comparability Act of 1990 (FEPCA)[14] or set based on percent increases authorized directly by Congress. GS employees receive an across-the-board increase (ranging from 0 to 3.8 percent since FEPCA was implemented) that has usually been made in accordance with a FEPCA formula linking increases to national private sector salary growth. This increase is the same for each covered employee. Most GS employees also receive a locality payment that varies based on their location. While FEPCA specifies a process designed to reduce federal-nonfederal pay gaps in each locality, in practice locality increases have usually been far less than the recommended amount, which has been between 15 and 20 percent in recent years. The President's Pay Agent, the entity responsible for recommending federal locality pay adjustments to the President, has recommended that the underlying model and methodology for estimating pay gaps be reexamined to ensure that private sector and federal sector pay comparisons are as accurate as possible.[15] To date, no such reexamination has taken place.

However, other organizations have compared federal and non-federal pay. The findings of the six studies published between 2009 and 2012 that we reviewed came to different conclusions on which sector had the

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[13]GAO, *Federal Workers: Results of Studies on Federal Pay Varied Due to Differing Methodologies*, GAO-12-564 (Washington, D.C.: June 22, 2012).

[14]Pub. L. No. 101-509, title V, § 529, 104 Stat. 1389, 1427-1469 (Nov. 5, 1990). GS employees permanently stationed in foreign countries do not receive locality pay. GS employees in Alaska, Hawaii, and U.S. territories and possessions began receiving locality pay in 2010. Locality pay may be extended to certain categories of non-GS employees by the President's Pay Agent.

[15]The President's Pay Agent is made up of the Directors of OPM and OMB and the Secretary of Labor, as established by executive order. The Pay Agent establishes and modifies locality pay areas for the General Schedule, determines salary survey coverage in coordination with the Bureau of Labor Statistics, calculates pay gaps, and recommends locality adjustments in its annual report to the President.

higher pay and the size of the pay disparities because they used different approaches, methods, and data.[16] With that in mind, when looking within and across these or other studies, it is important to understand the studies' methodologies because they affect how the studies can be interpreted.

The across-the-board and locality pay increases discussed above are given to all covered employees nearly every year and are not linked to performance.[17] Pay increases and monetary awards available to GS employees that are linked to performance ratings as determined by agencies' performance appraisal systems include within-grade increases, ratings-based cash awards, and quality step increases. Within-grade increases are the least strongly linked to performance, ratings-based cash awards are more strongly linked to performance depending on the rating system the agency uses, and quality step increases are also more strongly linked to performance.

Based on our past work, we believe that implementing a more market-based and more performance-oriented pay system is both doable and desirable.[18] However, experience has shown it certainly is not easy. For one thing, agencies must have effective performance management systems that link individual expectations to organizational results. Moreover, representatives of public, private, and nonprofit organizations, in discussing the successes and challenges they have experienced in designing and implementing their own results-oriented pay systems, told us they had to shift from a culture where compensation is based on position and longevity to one that is performance oriented, affordable, and sustainable.

As we have reported in the past, these organizations' experiences with their own market-based and performance-oriented pay systems provide

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[16]See GAO-12-564. The studies we reviewed included four published by nongovernmental organizations (the American Enterprise Institute for Public Policy Research, the Cato Institute, the Heritage Foundation, and the Project on Government Oversight) and two published by the government (the President's Pay Agent and the Congressional Budget Office).

[17]In fiscal years 2011, 2012, and 2013, there was neither an across-the-board or locality pay increase due to a government-wide pay freeze.

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

useful lessons learned that will be important to consider to the extent the federal government moves toward a more results-oriented pay system. Lessons learned include the following:[19]

1. Focus on a set of values and objectives to guide the pay system.

2. Examine the value of employees' total compensation to remain competitive in the labor market.

3. Build in safeguards to enhance the transparency and ensure the fairness of pay decisions.

4. Devolve decision making on pay to appropriate levels.

5. Provide clear and consistent communication so that employees at all levels can understand how compensation reforms are implemented.

6. Provide training on leadership, management, and interpersonal skills to facilitate effective communications.

7. Build consensus to gain ownership and acceptance of pay reforms.

8. Monitor and refine the implementation of the pay system.

Opportunities Exist to Strengthen Performance Management and Deal with Poor Performers

Efforts to Improve Performance Management

Our past work has shown that a long-standing challenge for federal agencies has been developing credible and effective performance management systems that can serve as a strategic tool to drive internal change and achieve results. In 2011, various federal agencies, labor unions, and other organizations developed the Goals-Engagement-

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[19]GAO-05-832SP.

Accountability-Results (GEAR) framework to help improve performance management by

- articulating a high-performance culture;
- aligning employee and organizational performance management;
- implementing accountability at all levels;
- creating a culture of engagement; and
- improving supervisor assessment, selection, development, and training.

Five federal agencies volunteered to pilot GEAR, either agency-wide or in specific components, including the Departments of Energy, Homeland Security/Coast Guard, Housing and Urban Development, Veterans Affairs/National Cemetery Administration, and OPM—with the intention to expand GEAR government-wide.

In our September 2013 report we found that the GEAR framework generally addressed key practices for effective performance management that we had previously identified, such as aligning individual performance expectations with organizational goals.[20] Additionally, we concluded that the GEAR framework presented an opportunity for federal agencies to increase employee engagement and improve performance management. Even though the GEAR pilot had only been in place for a short time, agency officials described benefits such as improved engagement and communication between employees and supervisors.

To improve the dissemination of the GEAR framework, our 2013 report included recommendations for OPM to, among other actions, better define the roles and responsibilities of OPM, the CHCO Council, and participating federal agencies, including how to identify future promising practices and how to update and disseminate information on the government-wide implementation of GEAR. We concluded that clearly defined roles and responsibilities are important for capitalizing on the improvements made at the five pilot agencies, as well as for sustaining and achieving the current administration's goal of implementing GEAR more broadly.

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[20]GAO, *Federal Employees: Opportunities Exist to Strengthen Performance Management Pilot*, GAO-13-755 (Washington, D.C.: Sept. 12, 2013).

OPM agreed with our recommendations and, working with the CHCO Council, has taken some initial steps to implement them. For example, the CHCO Council recently released a "toolkit" describing the next steps for implementing the GEAR principles, and the Executive Director of the CHCO Council described efforts in 2014 to improve employee engagement. Moreover, in June 2014, OPM officials said that OPM will be responsible for facilitating the collaboration and information-sharing between agencies on their approaches to implement GEAR, and OPM will continue to provide technical support and expertise on GEAR and successful practices for performance management. However, OPM officials said that while they will continue working with the CHCO Council to promote GEAR and to encourage other agencies to adopt the framework, it is unclear if any additional agencies have formally adopted GEAR to date. OPM said it will also work with the CHCO Council and implementing agencies to determine effective and appropriate evaluation tools and metrics to assess the progress of the implementation of GEAR.

Efforts to Address Poor Performers

As our past work has demonstrated, effective performance management systems can help create results-oriented organizational cultures by providing objective information to allow managers to make meaningful distinctions in performance in order to reward top performers and deal with poor performers.[21] Although poor performance is not defined by statute, title 5 of the *United States Code* defines "unacceptable performance" as "performance of an employee which fails to meet established performance standards in one or more critical elements of such employee's position."[22] Even a small number of poor performers can have negative effects on employee morale and agencies' capacity to meet their missions. The 2013 Federal Employee Viewpoint Survey found that only 28 percent of federal employees agreed that their work unit takes steps to deal with a poor performer who cannot or will not improve.[23]

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[21]GAO, *Employment: Issues Related to Poor Performers in the Federal Workplace,* GAO-05-812R (Washington, D.C.: June 29, 2005).

[22]5 U.S.C. § 4301(3). See also 5 C.F.R. § 432.103(h).

[23]The Federal Employee Viewpoint Survey is a tool offered by OPM that measures employees' perceptions of whether, and to what extent, conditions characterizing successful organizations are present in their agencies.

Although the exact number of poor performers in the federal government is unknown, it is generally agreed that poor performance should be addressed earlier rather than later, with the objective of improving performance. Various studies, reports, and surveys of federal supervisors and employees we reviewed have identified impediments to dealing with poor performance, including issues related to (1) time and complexity of the processes; (2) lack of training in performance management; and (3) communication, including the dislike of confrontation. It will be important for agencies to hold managers accountable for using probationary periods and other tools for addressing poor performers as well as to ensure that supervisors have adequate support from upper-level management and human capital staff in dealing with poor performance subject to applicable safeguards.

Our prior work on this topic identified various tools and approaches for addressing performance "upstream" in the process within a merit-based system that contains appropriate safeguards.[24] These approaches include the following:

- An effective performance management system that (1) creates a clear "line of sight" between individual performance and organizational success; (2) provides adequate training on the performance management system; (3) uses core competencies to reinforce organizational objectives; (4) addresses performance on an ongoing basis; and (5) contains transparent processes.

- A probationary period that provides managers with a provisional period to rigorously review employee performance.

Sustained Attention Is Needed to Address Current and Emerging Critical Skills Gaps

Since we first narrowed the strategic human capital high-risk area to focus on identifying and addressing government-wide mission critical skills gaps in February 2011, executive agencies and Congress have continued their efforts to ensure the government takes a more strategic and efficient approach to recruiting, hiring, developing, and retaining individuals with the skills needed to cost-effectively carry out the nation's business.[25] At the same time, we have recommended numerous actions individual agencies should take to address their specific human capital

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[24]GAO-05-812R.

[25]GAO, *High-Risk Series: An Update,* GAO-11-278 (Washington, D.C.: February 2011).

challenges, and we have also made recommendations to OPM to address government-wide human capital issues.

For example, in September 2011 OPM and the CHCOs—as part of ongoing discussions between OPM, the Office of Management and Budget (OMB), and GAO on the steps needed to address the federal government's human capital challenges—established the Chief Human Capital Officers Council Working Group (Working Group) to identify and mitigate critical skills gaps. Further, the Working Group's efforts were designated an interim Cross-Agency Priority (CAP) goal within the administration's fiscal year 2013 federal budget.

Using a multi-faceted approach including a literature review and an analysis of various staffing gap indicators, the Working Group identified the following government-wide mission critical occupations:

- information technology management/cybersecurity;
- auditor;
- human resources specialist;
- contract specialist;
- economist; and
- science, technology, engineering, and mathematics occupational group.

The Director of OPM—as leader of the cross-agency priority goal to close critical skills gaps—identified key federal officials from each of the six government-wide mission critical occupations to serve as "sub-goal leaders." For example, the sub-goal co-leaders for the cybersecurity workforce are from the White House Office of Science and Technology Policy and the Department of Commerce's National Institute of Standards and Technology. OPM noted that in working with their occupational communities, the sub-goal leaders have selected specific strategies to decrease skills gaps in the occupations they represent. OPM also noted that the OPM Director is to meet quarterly with these officials to monitor their progress, address their challenges, and identify support needed from OPM.

The Working Group also identified seven mission critical competencies, including data analysis, strategic thinking, influencing and negotiating, and problem solving, as well as agency-specific mission critical occupations such as nurses at the Department of Veterans Affairs. For

both the occupations and competencies, high-risk skills gaps were defined as those where staffing shortfalls could jeopardize the ability of government or specific agencies to accomplish their mission.

Under the skills gap CAP goal, OPM reported that "by September 30, 2013, skills gaps will be reduced by 50 percent for three to five critical federal government occupations or competencies, and additional agency-specific high-risk occupations and competency gaps will be closed." However, OPM's progress against this metric cannot be determined because as of June 2014 OPM has not provided any data on it.

Nonetheless, in November 2013, sub-goal leaders reported to OPM on the activity and progress made toward targets for each of the mission-critical occupations in fiscal year 2013. Specifically, leaders for three of the six sub-goals (cybersecurity, acquisition, and economist) reported that they had met their planned level of performance for fiscal year 2013, while the other three sub-goal leaders (human resources, auditor and STEM) reported that they did not make their target or were developing action plans for fiscal year 2014. For example, we found in June 2014 that the acquisitions sub-goal group established a target for increasing the certification rate of GS-1102 contract specialists to 80 percent. The final quarterly status update to the closing skill gaps CAP reported that the target was met and the certification rate increased to 81 percent. Conversely, the auditor sub-goal group reported that it was still gathering information on the extent of the skill gaps in the government-wide auditor workforce.[26]

The interim CAP goal for closing skills gaps was active through the end of fiscal year 2013 and has since been replaced by a new CAP goal focusing on people and culture including (1) creating a culture of excellence and engagement, (2) building a world-class federal management team starting with the Senior Executive Service, and (3) enabling agencies to hire the best talent from all segments of society.[27] The administration maintains that the original skills gap CAP goal is to

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[26]GAO, *Managing for Results: OMB Should Strengthen Reviews of Cross-Agency Goals,* GAO-14-526 (Washington, D.C.: June 10, 2014).

[27]*Government Efficiency and Effectiveness: Views on the Progress and Plans for Addressing Government-wide Management Challenges,* GAO-14-436T (Washington, D.C.: Mar. 12, 2014).

remain a priority and efforts related to it will continue to be implemented using various approaches led by the Director of OPM and the team of sub-goal leaders. Metrics that will be tracked include increasing the certification rates for contract specialists to 84 percent in the acquisition area, and for the cybersecurity area, increasing manager satisfaction with the quality of applicants from 65 percent to 67 percent.[28]

As we reported in February 2013,[29] further progress will depend on the extent to which OPM and agencies develop the infrastructure to sustain their planning, implementation, and monitoring efforts. It will be important for OPM and agencies to implement refinements to the approaches the Working Group used to identify and address critical skills gaps in order to enhance their effectiveness. These refinements can include

- identifying ways to document and assemble lessons learned, leading practices, and other useful information for addressing skill gaps into a clearinghouse or database so agencies can draw on one another's experiences and avoid duplicating efforts;

- examining the cost-effectiveness of delivering tools and shared services such as online training for workforce planning to address issues affecting multiple agencies;

- reviewing the extent to which new capabilities are needed to give OPM and other agencies greater visibility over skills gaps government-wide to better identify which agencies may have surpluses of personnel in those positions and which agencies have gaps, as well as the adequacy of current mechanisms for facilitating the transfer of personnel from one agency to another to address those gaps as appropriate; and

- determining whether existing workforce planning and other tools can be used to help streamline the processes developed by the Working Group.

OPM will also need to develop a predictive capacity to identify newly emerging skills gaps beyond those areas already identified. OPM agreed

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[28]Office of Personnel Management, *Cross-Agency Priority Goal: Closing Skills Gaps: FY 2013 Q4 Final Update,* accessed July 3, 2014, http://archive-goals.performance.gov/sites/default/files/images/Closing_Skills_Gaps_FY13_Q4_Final_CAP_Goal_Update.pdf.

[29]GAO-13-283.

that these were important areas for consideration and is taking steps to implement them. We will continue to monitor OPM and agencies' efforts in closing mission-critical skills gaps.

Management Challenges and Strategies to Help Agencies Meet Their Missions in an Era of Highly Constrained Resources

In addition to mission critical skills gaps, our recent work has identified other management challenges that, collectively, are creating fundamental capacity problems that could undermine the ability of agencies to effectively carry out their missions.[30] Although the way forward will not be easy, agency officials said these same challenges have created the impetus to act and a willingness to consider creative and nontraditional strategies for addressing issues in ways that previously may not have been organizationally or culturally feasible.

The Balanced Budget and Emergency Deficit Control Act of 1985, as amended, establishes discretionary spending limits for fiscal years 2012 through 2021, but many agencies had experienced flat or declining budgets for several years prior.[31] In the face of limited budgets, some agencies are reducing hiring, limiting training, offering employee buyouts and providing early retirement packages. As we concluded in our report, without careful attention to strategic and workforce planning and other approaches to managing and engaging personnel, the reduced investments in human capital can have lasting, detrimental effects on the capacity of an agency's workforce to meet its mission.

As we reported in May 2014, many agencies will need to do more with the same or lower number of people.[32] Although the government has taken on additional roles and responsibilities in recent years, the size of the federal workforce has changed little since 1981. There have been some fluctuations, but the number of federal employees has remained relatively steady at around 2 million people over this time, with 2.13 million workers in 2012. More specifically, as shown in figure 2, of the 24 Chief Financial

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[30]See for example, GAO, *Human Capital: Strategies to Help Agencies Meet Their Missions in an Era of Highly Constrained Resources,* GAO-14-168 (Washington, D.C.: May 7, 2014), and GAO-14-215.

[31]2 U.S.C. § 901(c).

[32]GAO-14-168.

Officer (CFO) Act agencies we reviewed,[33] 10 had a lower number of career permanent employees in 2012 than they did in 2004, 13 had a greater number, and 1, the Department of Transportation, was unchanged.[34,35]

Figure 2: Average Annual Percent Change in the Number of Permanent Career Employees by Agency, 2004-2012
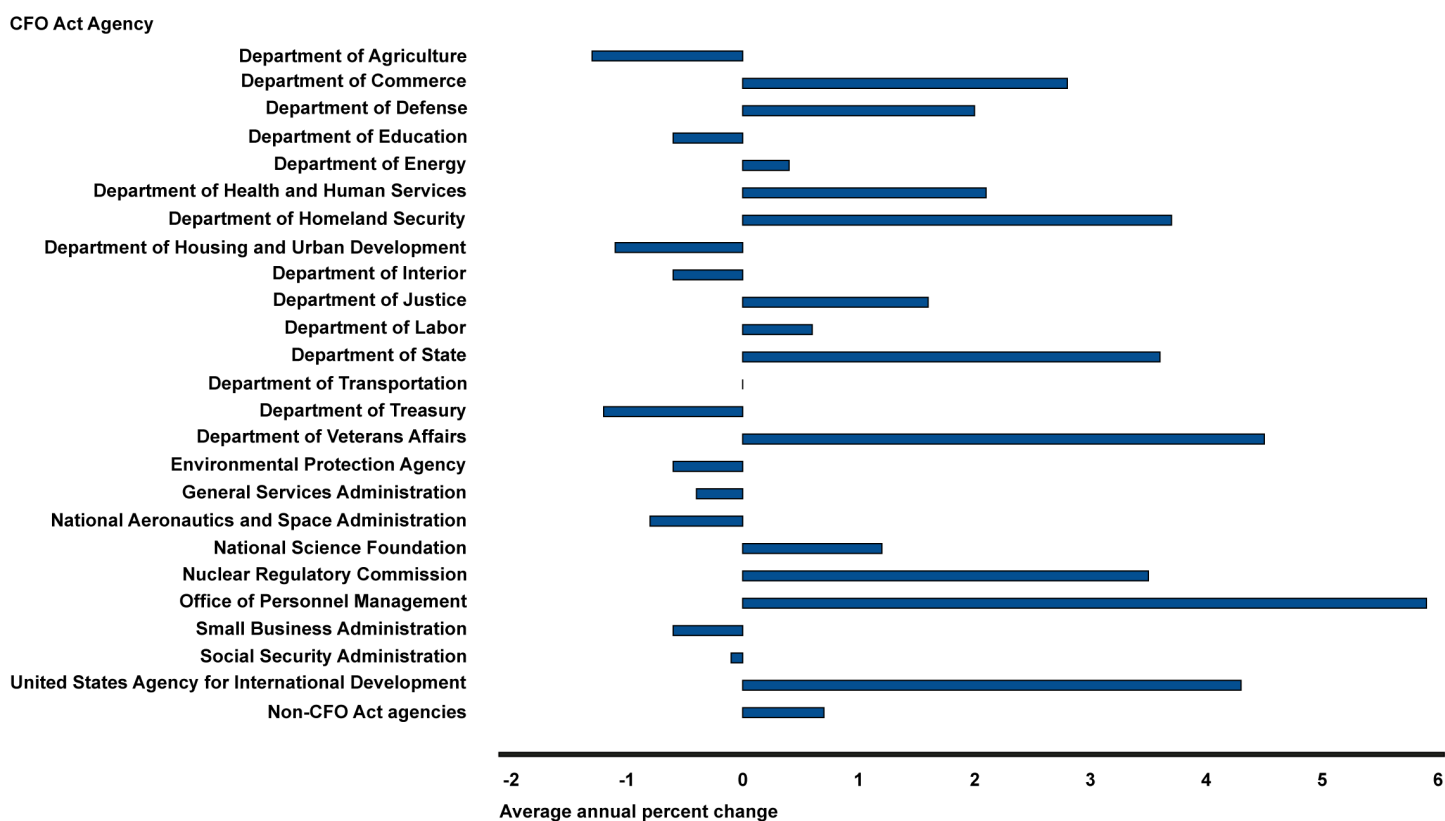
Source: GAO analysis of data from the OPM Enterprise Human Resources Integration Statistical Data Mart | GAO-14-723T.

[33]The CFO Act agencies are those covered by the Chief Financial Officers Act of 1990, as amended. 31 U.S.C. § 901(b).

[34]Career permanent employees are employees with appointments that do not have an ending date or maximum length of service.

[35]GAO-14-215.

Earlier this year we reported that 31 percent of all career permanent employees who were on board in September 2012 will become eligible to retire in September 2017.[36] As shown in figure 3 below, not all agencies will be equally affected by this trend. By 2017, 20 of the 24 CFO Act agencies will have a higher percentage of staff eligible to retire than the current 31 percent government-wide.[37] For example, about 21 percent of DHS staff on board as of September 2012 will be eligible to retire in 2017, while over 42 percent will be eligible to retire at both the Department of Housing and Urban Development and the Small Business Administration. Certain occupations—such as air traffic controllers and those involved in program management—will also have particularly high retirement eligibility rates by 2017.

Various factors affect when individuals actually retire, and some amount of retirement and other forms of attrition can be beneficial because it creates opportunities to bring fresh skills on board and allows organizations to restructure themselves in order to better meet program goals and fiscal realities. But if turnover is not strategically monitored and managed, gaps can develop in an organization's institutional knowledge and leadership. The high projected retirement eligibility rates across government underscore the importance of effective succession planning.

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[36]GAO-14-215.

[37]These projected retirement eligibility rates do not take into account hiring and separations that may occur over the next 5 years.

Figure 3: Percentage of Career Permanent Employees On Board in 2012 Eligible to Retire by 2017 by Agency
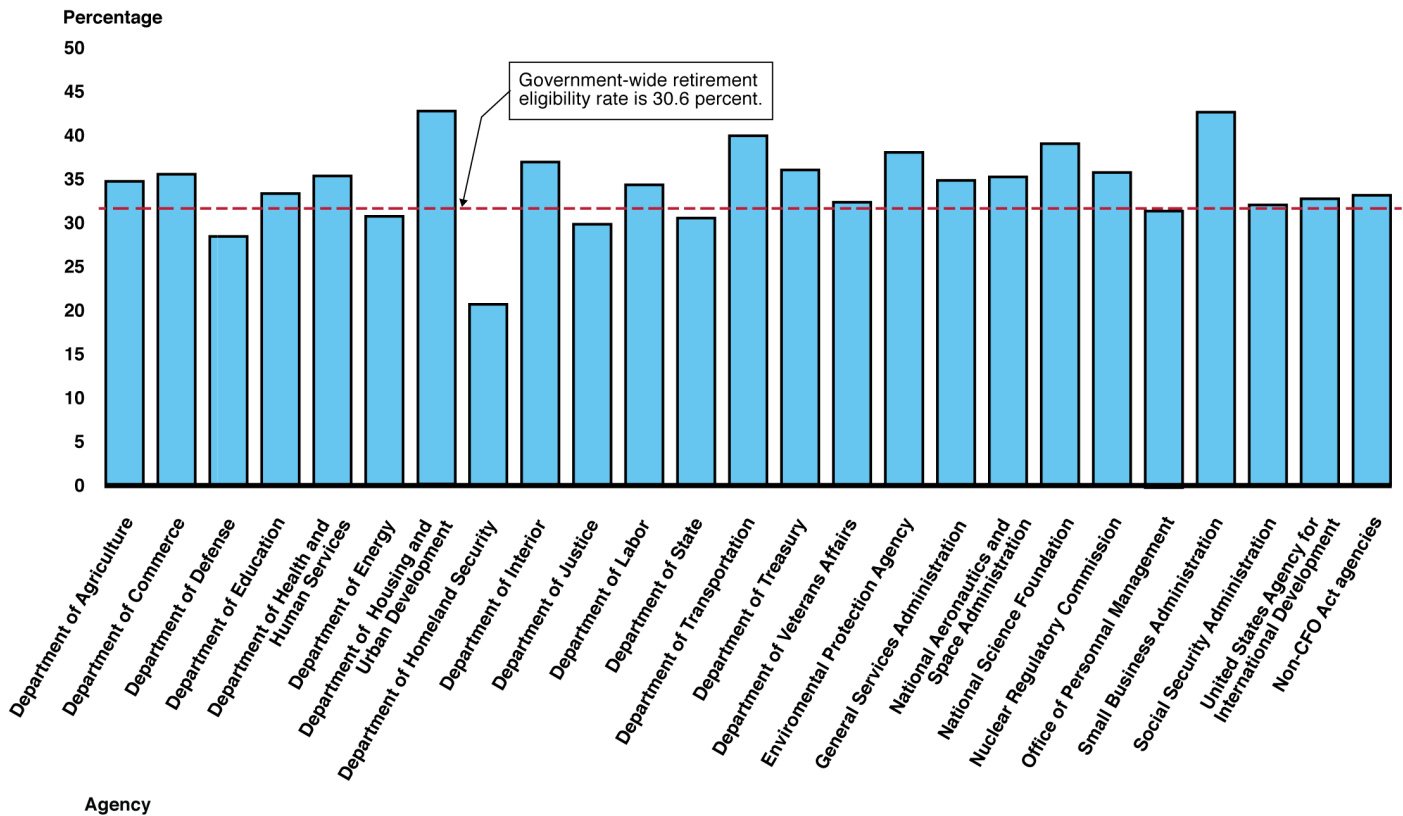
Government-wide retirement eligibility rate is 30.6 percent.

Source: GAO analysis of data from the OPM Enterprise Human Resources Integration Statistical Data Mart. | GAO-14-723T.

According to OPM, factors such as a 3-year pay freeze, automatic reductions from sequestration that included furloughs for hundreds of thousands of employees, and reductions in training and other areas have taken their toll on the federal workforce. In the 2013 Employee Viewpoint Survey results, the "global satisfaction index" showed an 8-percentage-point decline since 2010. Each of the four factors that make up the global satisfaction index showed downward trends from last year's results:

- job satisfaction dropped 3 points to 65 percent,

- pay satisfaction was down 5 points to 54 percent,

- organization satisfaction fell 3 points to 65 percent, and

- respondents that said they would recommend their organization declined by 4 points to 63 percent.[38]

As we reported earlier this year, to identify strategies for managing the federal workforce and plan for future needs in an era of constrained resources, we used several approaches including convening a full-day forum that included 25 of the 27 members of the CHCO Council. Our analysis and recommendations based on this effort provide an important framework for prioritizing and modernizing current human capital management practices to meet agencies' current and future missions. The strategies included the following:[39]

Strengthening collaboration to address a fragmented human capital community. Our analysis found that the federal human capital community is highly fragmented with multiple actors inside government informing and executing personnel policies and initiatives in ways that are not always aligned with broader, government-wide human capital efforts. The CHCO Council was established to improve coordination across federal agencies on personnel issues, but according to CHCOs, the council is not carrying out this responsibility as well as it could. This challenge manifests itself in two ways: across organizations, with many actors making human capital decisions in an uncoordinated manner, and within agencies, excluding CHCOs and the human capital staff from key agency decisions.

Using enterprise solutions to address shared challenges. Our analysis found that agencies have many common human capital challenges, but they tend to address these issues independently without looking to enterprise solutions that could resolve them more effectively. Across government, there are examples of agencies and OPM initiating enterprise solutions to address crosscutting issues, including the consolidation of federal payroll systems into shared-services centers. CHCOs highlighted human resource information technology and strategic workforce planning as two areas that are ripe for government-wide collaboration.

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[38]Office of Personnel Management, *Federal Employee Viewpoint Survey Results: Employees Influencing Change, 2013 Government-wide Management Report,* (Washington, D.C.: 2013).

[39]GAO-14-168.

Creating more agile talent management to address inflexibilities in the current system. Our analysis found talent management tools lack two key ingredients for developing an agile workforce, namely the ability to (1) identify the skills available in existing workforces, and (2) move people with specific skills to address emerging, temporary, or permanent needs within and across agencies.

As we reported earlier this year, the CHCOs said OPM needs to do more to raise awareness and assess the utility of the tools and guidance it provides to agencies to address key human capital challenges. CHCOs said they were either unfamiliar with OPM's tools and guidance or they fell short of their agency's needs. OPM officials said they had not evaluated the tools and guidance they provide to the agencies. As a result, a key resource for helping agencies improve the capacity of their personnel offices is likely being underutilized.

Among other things, in our May 2014 report we recommended that the Director of OPM, in conjunction with the CHCO Council, strengthen OPM's coordination and leadership of government-wide human capital issues to ensure government-wide initiatives are coordinated, decision makers have all relevant information, and there is greater continuity in the human capital community for key reforms. Specific steps could include, for example, developing a government-wide human capital strategic plan that, among other things, would establish strategic priorities, time frames, responsibilities, and metrics to better align the efforts of members of the federal human capital community with government-wide human capital goals and issues. OPM and the CHCO Council concurred with these recommendations and identified actions they plan to take to address them.

Conclusions

In conclusion, strategic human capital management must be the centerpiece of any serious effort to ensure federal agencies operate as high-performing organizations. A high-quality federal workforce is especially critical now given the complex and cross-cutting issues facing the nation.

Through a variety of initiatives, Congress, OPM, and individual agencies have strengthened the government's human capital efforts since we first identified strategic human capital management as a high-risk area in 2001. Still, while much progress has been made over the last 13 years in modernizing federal human capital management, the job is far from over. Indeed, the focus areas discussed today are not an exhaustive list of challenges facing federal agencies and are long-standing in nature.

Greater progress will require continued collaborative efforts between OPM, the CHCO Council, and individual agencies, as well as the continued attention of top-level leadership. Progress will also require effective planning, responsive implementation, robust measurement and evaluation, and continued congressional oversight to hold agencies accountable for results.

In short, while the core human capital processes and functions—such as workforce planning and talent management—may sound somewhat bureaucratic and transactional, our prior work has consistently shown the direct link between effective strategic human capital management, and successful organizational performance. At the end of the day, strategic human capital management is about mission accomplishment, accountability, and responsive, cost-effective government.

Chairman Farenthold, Ranking Member Lynch, and Members of the Subcommittee, this completes my prepared statement. I would be pleased to respond to any questions you may have at this time.

Contacts and Acknowledgments

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