

United States Government Accountability Office

Performance-Based
TRANSFORMATION
GAO's OWN EXPERIENCE



**The Honorable
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Comptroller General
of the United States

Homeland Security
Maximizing Leadership
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The Case for Change

- **Government is on a “burning platform,” and the status quo way of doing business is unacceptable for a variety of reasons, including:**
 - Past fiscal trends and significant long-range challenges
 - Rising public expectations for demonstrable results and enhanced responsiveness
 - Selected trends and challenges having no boundaries
 - Additional resource demands due to recent terrorism events in the United States
 - Government performance/accountability and high risk challenges, including the lack of effective human capital strategies

GAO's High-Risk List

2005

High-Risk Areas	Designated High Risk
Addressing Challenges in Broad-based Transformations	
Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures	1997
Strategic Human Capital Management ^a	2001
U.S. Postal Service Transformation Efforts and Long-Term Outlook ^a	2001
Managing Federal Real Property ^a	2003
Implementing and Transforming the Department of Homeland Security	2003
Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security	2005
DOD Approach to Business Transformation ^a	2005
DOD Supply Chain Management (formerly Inventory Management)	1990
DOD Weapon Systems Acquisition	1990
DOD Business Systems Modernization	1995
DOD Financial Management	1995
DOD Support Infrastructure Management	1997
DOD Personnel Security Clearance Program	2005
Managing Federal Contracting More Effectively	
DOE Contract Management	1990
NASA Contract Management	1990
DOD Contract Management	1992
Management of Interagency Contracting	2005
Assessing the Efficiency and Effectiveness of Tax Law Administration	
Enforcement of Tax Laws ^{a, b}	1990
IRS Business Systems Modernization ^c	1995
Modernizing and Safeguarding Insurance and Benefit Programs	
Medicare Program ^a	1990
HUD Single-Family Mortgage Insurance and Rental Housing Assistance Programs	1994
Medicaid Program ^a	2003
Modernizing Federal Disability Programs ^a	2003
Pension Benefit Guaranty Corporation Single-Employer Insurance Program ^a	2003
Other	
FAA Air Traffic Control Modernization	1995

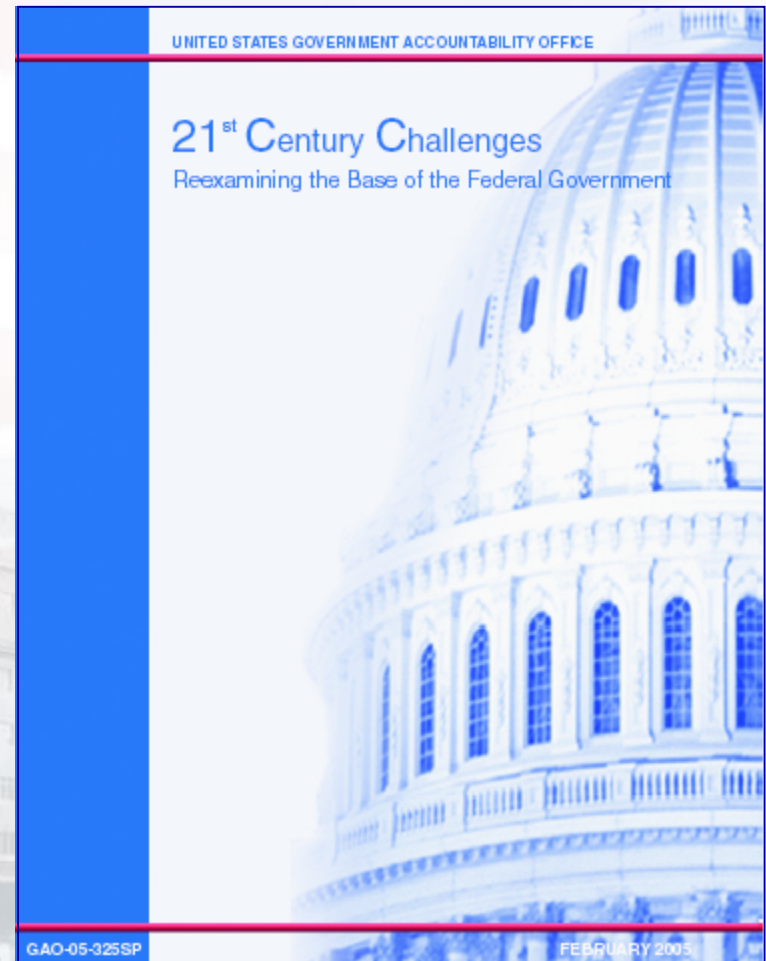
^a Legislation is likely to be necessary, as a supplement to actions by the executive branch, in order to effectively address this high-risk area.

^b Two high-risk areas—Collection of Unpaid Taxes and Earned Income Credit Noncompliance—have been consolidated to make this area.

^c The IRS Financial Management high-risk area has been incorporated into this high-risk area.

21st Century Challenges Report

- Issued February 16, 2005
- Based on GAO's work for the Congress
- Provides background, framework, and questions to assist in reexamining the base
- Covers entitlements & other mandatory spending, discretionary spending, and tax policies and programs



Twelve Reexamination Areas

MISSION AREAS

- Defense
- Education & Employment
- Financial Regulation & Housing
- Health Care
- Homeland Security
- International Affairs
- Natural Resources, Energy & Environment
- Retirement & Disability
- Science & Technology
- Transportation

CROSSCUTTING AREAS

- Improving Governance
- Reexamining the Tax System

Generic Reexamination Criteria and Sample Questions

Relevance of purpose and the federal role

Why did the federal government initiate this program and what was the government trying to accomplish?

Have there been significant changes in the country or the world that relate to the reason for initiating it?

Measuring success

Are there outcome-based measures? If not, why?

If there are outcome-based measures, how successful is it based on these measures?

Targeting benefits

Is it well targeted to those with the greatest needs and the least capacity to meet those needs?

Affordability and cost effectiveness

Is it using the most cost-effective or net beneficial approaches when compared to other tools and program designs?

Best practices

Is the responsible entity employing prevailing best practices to discharge its responsibilities and achieve its mission?

Illustrative 21st Century Questions

- How should the historical allocation of resources across services and programs be changed to reflect the results of a forward-looking comprehensive threat/risk assessment as part of DOD's capabilities-based approach to determining defense needs?
- How can the United States better develop a world-class technical and scientific domestic workforce that is not as dependent on large inflows of international students and researchers? For example, are different educational tools or targeted funding strategies needed to enhance U.S. student achievement in math and science?
- What criteria should be used to target federal funding for homeland security in order to maximize results and mitigate risk within available resource levels?
- How can industry standards for acceptable care be established and payment reforms be designed to bring about reductions in unwarranted medical practice variation?
- Which tax incentives need to be reconsidered because they fail to achieve the objectives intended by the Congress, their costs outweigh their benefits, they duplicate other programs, or other more cost-effective means exist for achieving their objectives?

Trans ***FORMATION***

Webster's definition

**An act, process, or instance of
change in structure appearance,
or character**

**A conversion, revolution,
makeover, alteration, or
renovation**

The Objective of Transformation

To create a more positive future by maximizing value and mitigating risk within current and expected resource levels

Transformation Has Different Dimensions

DOD

DHS

U. S. Postal Service

IRS

DOE

NASA

Information Sharing
Human Capital Strategy
Financial Management
Information Technology
Sourcing Strategy
Disability Programs
Real Property Management

Note: All of the above are on GAO's High Risk List to one extent or the other.

Transformation: A New Model for Government Organizations

Government organizations will need to:

- Become less hierarchical, process-oriented, stovepiped, and inwardly focused.
- Become more partnership-based, results-oriented, integrated, and externally focused.
- Achieve a better balance between results, customer, and employee focus.
- Work better with other governmental organizations, non-governmental organizations, and the private sector, both domestically and internationally, to achieve results.
- Focus on maximizing value, managing risk and enhancing responsiveness within current and expected resource levels.

Keys to Making Change Happen

- Commitment and sustained leadership
- Demonstrated need for change (i.e., burning platform)
- Start at the top and with the new people (transformation takes 7+ years)
- Process matters (e.g., employee involvement)—Don't fight a two-front war
- 15-percent rule
- Identifiable and measurable progress over time
- Communication, communication, communication
- Figure out what's right versus what's popular
- Patience, persistence, perseverance to pain before you prevail

Keys to Making Change Happen

Several other actions needed:

- Strategic Plan
- Core values
- Organizational alignment
- Recruiting, development, and succession planning strategies
- Modernizing and integrating institutional, unit and individualized performance measurement and reward systems
- Employee empowerment and effective communications

Selected GAO-Related Activities

- Speeches and Outreach Efforts
- CG Forums
- High Risk Update Report
- 21st Century Challenges Report
- Various Congressional Consultation and Assistance Efforts
- Public Education Assistance
- Constructive engagement efforts (e.g., best practices guides, self assessment tools, benchmarking statistics)
- Leading by example

GAO: Leading by Example

(Change, Performance, and Human Capital Management)

- Mission and vision clarification
- Core values: accountability, integrity, reliability
- Strategic planning
- Organizational realignment
- Definitions of success
- Multi-tasking and matrix management
- Procurement, contracting, and acquisition
- Human capital
- Information technology
- Knowledge management
- Financial management
- Client service/external agency relations and protocols
- Enhanced products and services
- Constructive engagement with agencies
- Partnering with other accountability and “good government” organizations

GAO's Strategic Plan

SERVING THE CONGRESS AND THE NATION GAO'S STRATEGIC PLAN FRAMEWORK

MISSION

GAO exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people.

THEMES



Long-Term Fiscal Imbalance

National Security

Global Interdependence

Changing Economy

Demographics

Science and Technology

Quality of Life

Governance

GOALS & OBJECTIVES



Provide Timely, Quality Service to the Congress and the Federal Government to ...

Address Current and Emerging Challenges to the Well-Being and Financial Security of the American People *related to ...*

- Health care needs and financing
- Education and protection of children
- Work opportunities and worker protection
- Retirement income security
- Effective system of justice
- Viable communities
- Natural resources use and environmental protection
- Physical infrastructure

Respond to Changing Security Threats and the Challenges of Global Interdependence *involving ...*

- Emerging threats
- Military capabilities and readiness
- Advancement of U.S. interests
- Global market forces

Help Transform the Federal Government's Role and How It Does Business to Meet 21st Century Challenges *by assessing ...*

- Roles in achieving federal objectives
- Government transformation
- Key management challenges and program risks
- Fiscal position and financing of the government

Maximize the Value of GAO by Being a Model Federal Agency and a World-Class Professional Services Organization *in the areas of ...*

- Client and customer satisfaction
- Strategic leadership
- Institutional knowledge and experience
- Process improvement
- Employer of choice

CORE VALUES

Accountability

Integrity

Reliability

Selected Success Measures

- Results
- Clients/customers
- People
- Partnerships

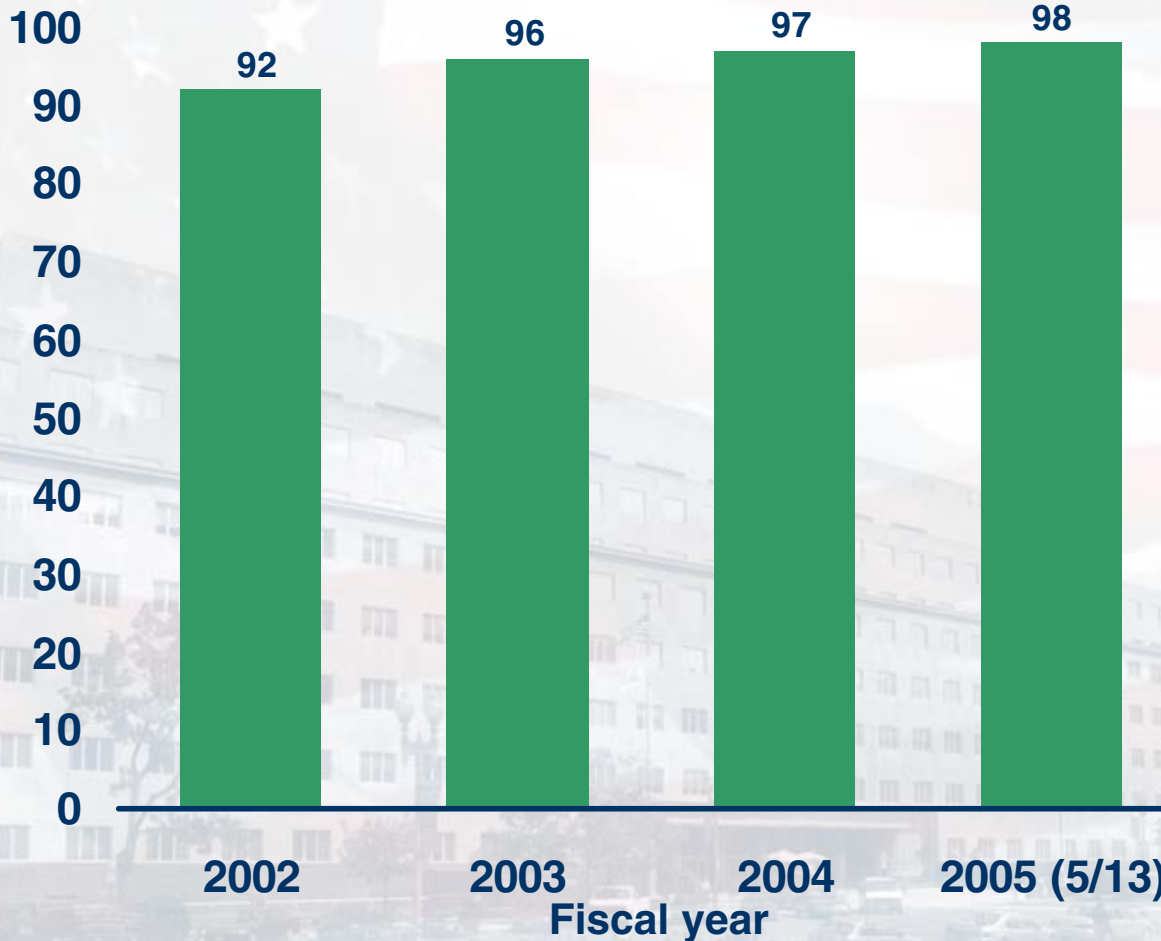
Annual Performance Measures

(1998 and 2004)

Performance measure	Actual	
	FY 1998	FY 2004
Financial benefits (billions)	\$19.7	\$44
Other benefits	537	1197
Past recommendations implemented	69%	83%
Return on investment (ROI)	58:1	95:1
Financial benefits per employee (millions)	\$6.1	\$13.7
Timeliness	93%	97%

Client Feedback Fiscal Years 2002-05

Percent Favorable



Response rates were
46% in FY02,
31% in FY03,
34% in FY04, and
30% in FY05

GAO Benchmarking Results for 2004

GAO exceeded the latest private sector and Office of Personnel Management (OPM) benchmark measures in the following four questions, as shown below.

	Benchmarking Results		
	Private Industry 2004	OPM 2004	GAO 2004
Personal Experiences			
I am given a real opportunity to improve my skills in my organization	62%	63%	70%
My job makes good use of my skills and abilities	74%	67%	71%
My work gives me a feeling of personal accomplishment	75%	71%	79%
Considering everything, how satisfied are you with your job?	71%	68%	76%

Source: Federal Human Capital Survey 2004 analysis.

Key GAO Partnerships



Key Transformation Elements

- People
- Process
- Partnerships
- Technology
- Environment

The most important of the five is **PEOPLE** — an agency's human capital.



Federal Human Capital Reform

- People are critical to successful transformation
- However, the existing federal personnel system is outmoded and a barrier to transformation needed to address 21st Century challenges
- GAO placed strategic human capital management on the high risk list in 2001 to focus attention on needed reforms
- More progress on reform has been achieved in the last 5 years than in the previous 20
 - Legislative reforms
 - President's Management Agenda
 - Individual agencies' efforts

Federal Human Capital Reform

- Tailored flexibilities have been granted to a number of agencies: DHS, DOD, NASA, GAO, etc.
- GAO is sharing its knowledge and experience to help inform other agencies in their efforts and to avoid pitfalls

How GAO Has Addressed Its Human Capital Challenges

Administrative

- HQ realignment & field office restructuring
- Self-assessment checklist
- Human capital profile
- Workforce & succession planning
- Employee feedback survey & suggestion program
- Employee Advisory Council
- Enhanced employee communications & participation
- Skills & knowledge inventory
- Employee preference survey
- Frequent flyer miles
- Student loan repayment
- Recruitment & college relations
- Phased retirement initiative
- Training/development
- Recognition & rewards
- Business casual dress & business cards
- Enabling technologies
- Opportunity/inclusiveness
- Mentor/buddy programs
- Commuting subsidy
- Competency-based employee appraisal system
- Human Capital Officer
- Office of Opportunity & Inclusiveness
- Flexitime and telework
- Total compensation communications
- Classification and compensation review
- Human Capital Strategic Plan

Legislation Addressing GAO's Human Capital Challenges

Past


- Broad-banding system for mission staff
- Expedited hiring authority (e.g., internship program)
- Special pay rates
- Senior level for technical staff
- Targeted early out and buyout authority (3 years)
- Revised RIF rules

Recent

- Targeted early out and buyout authority (permanent)
- Annual pay adjustment rates
- Pay retention provisions
- Relocation benefits
- Increased annual leave for upper level employees
- Executive exchange program
- Re-designation of “General Accounting Office” to “Government Accountability Office”

GAO Elements of Reform

Modern, Effective, Credible, and Validated Performance Management System



- Focuses on core competencies
- Helps to communicate employee performance expectations
- Creates a “line of site” linking institutional team/unit and individual performance
- Makes meaningful distinctions in employee performance
- Provides for competency-based results automatically and relative peer group standing on request

Modern Classification and Compensation System



- Uses pay bands
- Is market-based
- Is performance-oriented

Safeguards, transparency, and accountability built in

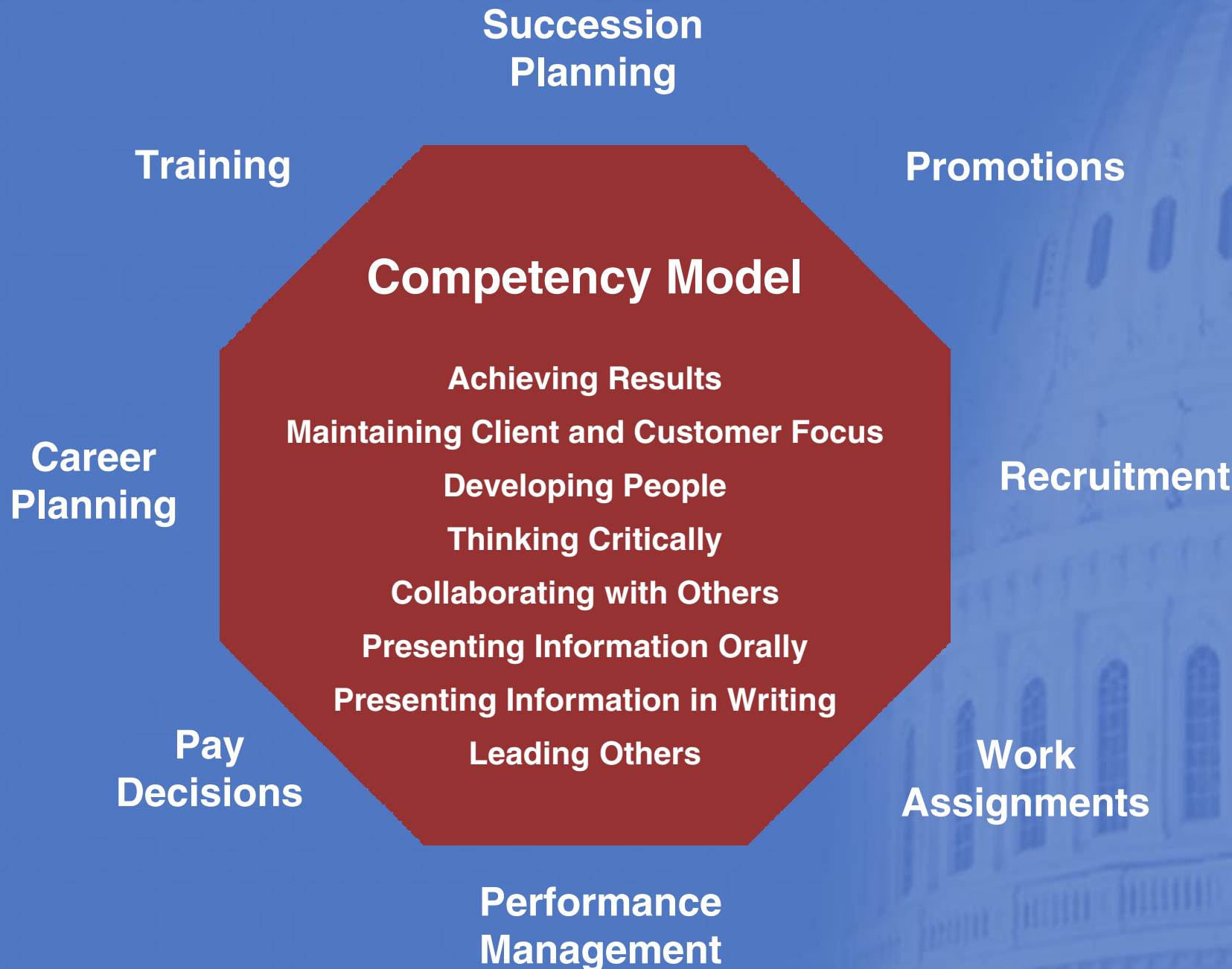


- Provisions for employee participation
- Pre- and post-implementation consultation and communications strategy incorporated
- Internal pre-decisional revenues and reasonable post-decisional transparency
- Avenues for adverse action appeals, both internally and externally

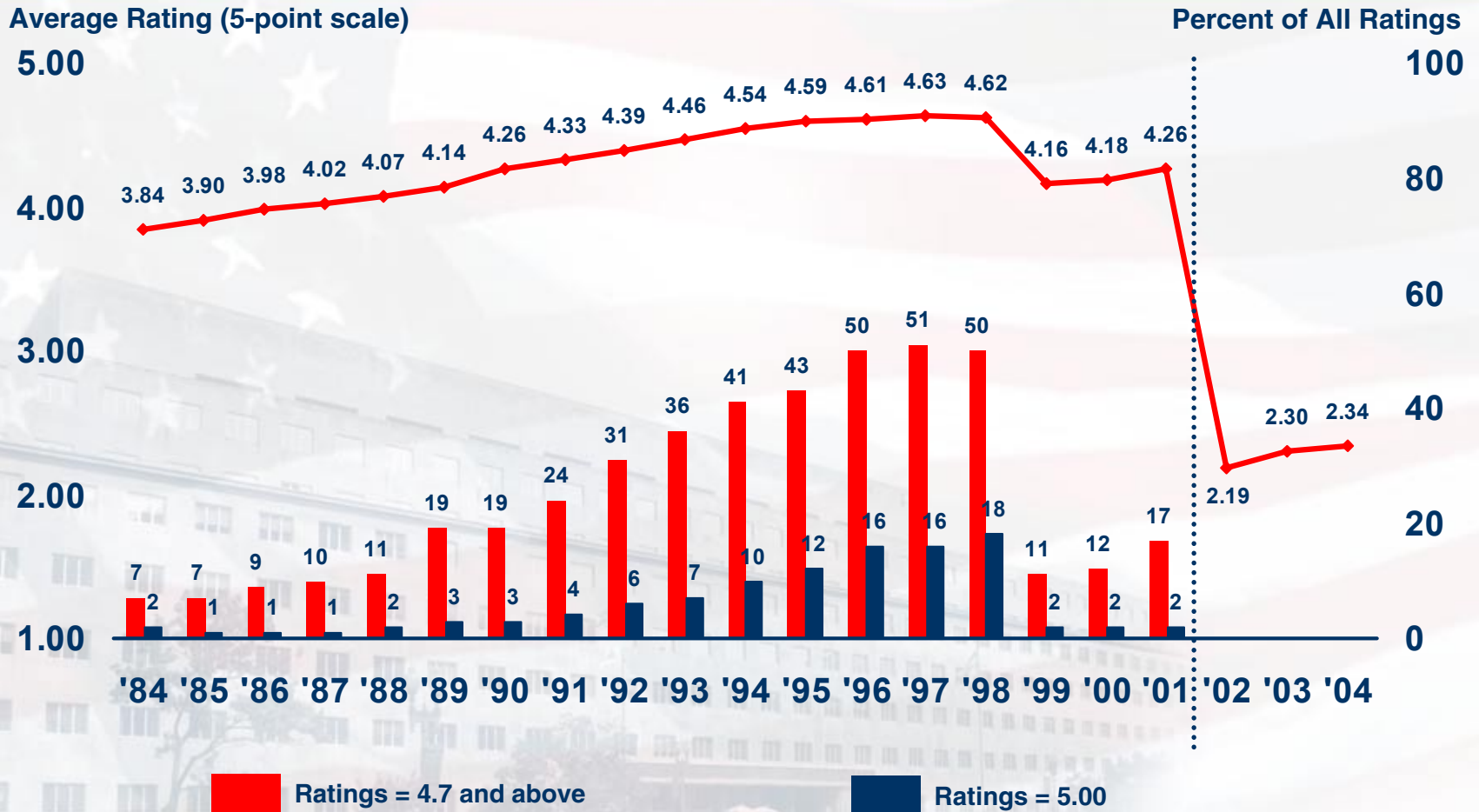
Competency-Based Performance Appraisal

Objective of new system are to provide a:

- Clear link to our strategic plan, professional standards, protocols and core values
- Fair, honest, accurate and non-discriminatory assessment of performance based on standards that are valid, properly applied, and transparent to employees
- A sound basis for enhancing the performance capacity of all staff, rewarding high-performing staff, and dealing with “below expected” performers



Analyst/Specialist Appraisal Scores (1984-2004)



Note: GAO's new competency-based performance management system was implemented in January 2002. There were no individual appraisal averages as high as 4.7 in FY02, FY03, or FY04.

People Measures: Staff Development

(Percent of staff responding favorably)

Questions	FY03 67%	FY04 70%	FY05 72%
Internal training (delivered by GAO staff or contractors)	63%	68%	70%
External training/ conferences	85%	86%	88%
On the job training I received	69%	72%	75%
Computer-based training delivered by Internet, IPTV or CD	25%	57%	58%

People Measures: Staff Utilization

(Percent of staff responding favorably)

Questions	FY03 71%	FY04 72%	FY05 75%
My job made good use of my skills and abilities	71%	72%	75%
GAO provided me with opportunities to do challenging work	69%	70%	73%
In general, I was used effectively	73%	74%	78%

People Measures: Organizational Climate

(Percent of staff responding favorably)

Questions	FY03 71%	FY04 74%	FY05 76%
A spirit of cooperation and teamwork exists in my work	73%	78%	79%
I am treated fairly and with respect	74%	77%	80%
My morale is good	67%	69%	71%
Sufficient effort is made to get the opinions and thinking of people	67%	74%	76%
Overall I am satisfied with my job at GAO	74%	74%	75%

People Measures: Leadership

(Percent of staff responding favorably)

Questions	FY03 78%	FY04 79%	FY05 80%
Gave me the opportunity to do what I do best	79%	79%	81%
Treated me fairly	86%	87%	89%
Acted with honesty and integrity toward me	85%	86%	88%
Gave me the sense my work is valued	75%	77%	78%
Ensured a clear link between my performance and recognition of it	69%	72%	73%
Provide meaningful incentives for high performance	57%	58%	59%
Implemented change effectively	74%	75%	77%
Dealt effectively with EEO and discrimination issues	92%	92%	92%
Demonstrated GAO's core values	86%	88%	89%
Made decisions in a timely manner	76%	77%	77%

Classification and Compensation System: Key Guiding Principles

- Enable GAO to attract and retain top talent
- Result in equal pay for work of equal value over time
- Be reflective of the roles and responsibilities that we expect GAO staff to perform
- Be reasonable; competitive; performance-oriented; and based on skills, knowledge, and role
- Be affordable and sustainable based on current and expected resources levels
- Be in conformity with applicable statutory limits
- Try to assure a reasonable consistency in ratings and related compensation results within and between teams

Pay Philosophy: Performance-Oriented and Market-Based

Historically

- Pay ranges followed the GS schedule
- Everyone could advance to the pay cap irrespective of their performance—not a matter of if, but when

New Approach

- Pay ranges set to be competitive with the labor markets in which GAO competes for talent
- Everyone can advance to the pay cap—but they must have performance in excess of a certain level to advance beyond a certain point of the pay range (e.g., 75th percentile)
- Pay ranges may overlap in upper part of band pay range to adequately reward expertise, leadership, and performance

Classification and Compensation Review (CCR) Approach—Best Practices

- Hired an experienced and top quality firm—
Watson Wyatt
- Followed an industry best practices process and methodology
 - Early involvement of Career Stream Focal Points (including Employee Advisory Council representatives) to provide:
 - Knowledge and expertise on job content
 - Insight regarding attraction and retention issues including turnover, recruitment sources, and mid-career hiring
 - Hands-on review and confirmation of GAO job matches and 18 selected published survey sources

CCR Approach (Continue)

- Multiple authoritative surveys used for determining competitive compensation data
- Widely recognized local labor market data index used for local market categories
- Extensive involvement throughout the study by the Executive Committee to:
 - Provide strategic guidance and input
 - Confirm and approve job matches from selected published survey sources after consideration of recommendations from Career Stream Focal Points and Watson Wyatt

Proposed Compensation Ranges: Analysts

Washington DC Market-Based Compensation Ranges

	Expected Pay	Range	Above Expected	Pay Range
Reference Range	Pay Range Minimum	Competitive Pay	75 th Percentile	Pay Range Maximum
1	\$45,000	\$59,000	\$68,000	\$74,000
2a	\$60,000	\$80,000	\$92,000	\$99,000
2b	\$75,000	\$100,000	\$115,000	\$125,000
3	\$86,000	\$114,000	\$131,000	\$135,500 ¹

¹ The maximum pay shown for Reference Range 3 is estimated. It will be adjusted to its final level when OPM determines the amount of the 2005 locality increase for Washington, DC.

Other Agencies' Elements of Reform

- **DHS and DOD reforms**

- **Intend to include many of these same elements of a flexible and contemporary human capital management system**
 - Pay bands for more flexible classification, staffing, and compensation approaches
 - More market based and performance oriented pay system
 - Modern performance management systems
- **But many details still to be defined, and the agencies face multiple challenges:**
 - Revisions to labor-management relations have been controversial
 - Need to provide sustained and committed leadership, dedicated resources, pre-implementation training, and a post-implementation program evaluation strategy
 - Need to assure that the necessary support infrastructure is in place before allowing agencies to implement certain authorities (e.g., performance-based pay)
 - Need to conduct appropriate studies over time (e.g., market-based compensation ranges)

Going Forward

- **Reforms to date recognize that one-size-fits-all approach is not appropriate to each agency's demands, challenges, and missions. However, a reasonable degree of consistency across the government is still desirable (e.g., principles, values, and safeguards)**
- **Need to move forward with reform, but how it is done, when it is done, and on what basis it is done can make all the difference**
- **Future reforms should incorporate a phased approach, where agencies are authorized to implement reform only after they have shown they have the infrastructure in place and the resources to be successful (i.e., show-me approach)**
- **As part of this approach, agencies must be able to make effective use of new authorities and have critical infrastructure in place:**
 - Strategic human capital planning process linked to the agency's overall strategic plan
 - Modern, effective, credible, integrated, and validated performance management system
 - Adequate internal and external safeguards (e.g., reviews, appeal processes)
 - Adequate resources for training and evaluation

Going Forward

- **In the short term, reforms should, at a minimum, include select and targeted new authorities**
 - Allowing agency heads to make a limited number of term appointments awarded noncompetitively
 - No guaranteed pay increases for persons who do not perform at an acceptable level
 - Rightsizing and restructuring authorities that can place additional emphasis on factors such as knowledge, skills, and performance
- **Broader reforms should be guided by a framework consisting of a common set of:**
 - Principles (e.g., merit principles)
 - Criteria (e.g., demonstrated business case)
 - Processes (e.g., preconditions, including adequate infrastructure in place)
- **GAO continues to work with key clients and stakeholders on future of reform**
 - Forum on government-wide framework
 - Testimony on DHS and DOD human capital designs
 - Symposium on modern compensation systems
 - Sharing our experience in implementing our reforms
 - Ongoing dialogue with the Congress, OMB, OPM, and various agencies, professional groups, unions, and others

Three Key Ingredients Needed for These Challenging and Changing Times

- ***Courage***
- ***Integrity***
- ***Innovation***

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