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Human Capital: Meeting the Governmentwide High-Risk Challenge

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity this morning to contribute to the Subcommittee's discussion about the urgency of improving the way the federal government manages its most valuable asset—its people. High-performing organizations in the private and public sectors have long understood the relationship between effective "people management" and organizational success. An organization's people—its human capital—are its most critical asset in managing for results. However, the federal government has often acted as if federal employees were costs to be cut rather than assets to be valued. After a decade of government downsizing and curtailed investments in human capital, it is becoming increasingly clear that today's federal human capital strategies are not appropriately constituted to meet the current and emerging needs of the federal government and the nation's citizens.

I would like to address two main points today:

- First, strategic human capital management is a pervasive challenge in the federal government. At many agencies, human capital shortfalls have contributed to serious programmatic problems and risks.
- Addressing the federal government's human capital challenges is a responsibility shared by many parties, including agency leaders, Office of Management and Budget (OMB), Office of Personnel Management (OPM), and Congress. Agency leaders need to make this area a priority. They should apply the tools and flexibilities already available under existing laws and regulations to make substantial progress in managing their human capital without waiting for legislative reform to occur. Ultimately, comprehensive legislative reform in this area will be necessary: however the consensus necessary to make this a reality has yet to be achieved. The valuable information that agencies can generate through their human capital initiatives can become important building blocks in developing and achieving consensus on needed human capital legislative reform.

To help focus on this critically important issue, we recently added strategic human capital management to the list of federal programs and operations we have identified as high risk. We determined that the federal government's current approach to strategic human capital management met all three of the criteria we had adopted for identifying governmentwide high-risk areas. First, strategic human capital management challenges are evident at multiple agencies. Second, these challenges affect a significant portion of the government's total budget or other resources. And third, these challenges constitute a deficiency that should be monitored and addressed through individual agency actions as well as through OMB, OPM initiatives, legislative action, and/or congressional oversight.

The leadership provided by this Subcommittee and the Senate Committee on Governmental Affairs (SGA) have been especially important in focusing attention on the federal government's human capital challenges and in helping to lay a bipartisan foundation for eventual human capital legislative reform. Mr. Chairman, your recent report, aptly entitled "Report to the President: The Crisis in Human Capital," captures in compelling terms both the urgency of the government's human capital problems and the opportunity that now exists to make the federal government's "people management" a top priority for both Congress and the new administration. Likewise, SGA Chairman Fred Thompson's report on human capital, issued as part of a series on management challenges facing the new administration, places human capital at the center of current discussions on how to make the federal government work better.

Widespread inattentiveness to strategic human capital management has created a governmentwide risk—one that is fundamental to the federal government's ability to effectively serve the American people, both now and in the future. As our recent Performance and Accountability Series (PAS) reports make clear, serious human capital shortfalls are eroding the ability of many federal agencies—and threatening the ability of others—to economically, efficiently, and effectively perform their missions. Simply stated, human capital problems often lead to programmatic problems. The federal government must give far greater attention than it has in the past to marshaling, managing, and maintaining the human capital needed to maximize government performance and ensure accountability for the benefit of the American people.

The landmark federal management reforms of the 1990s addressed most, but not all, of the essential elements of modern performance management: financial management, information technology management, and—through the Government Performance and Results Act (GPRA)—strategic planning, including results-oriented goal-setting and performance measurement. In contrast, human capital management has yet to find the broad conceptual acceptance or political consensus needed for comprehensive legislative reform to occur, and in this sense, human capital management remains the missing link in the federal management framework. I believe, however, that comprehensive federal human capital legislative reform will eventually occur. One indication of the gathering momentum is the fact that OMB, OPM, and Congress all have taken steps in the past year to underscore the importance of strategic human capital management, and that some individual agencies have begun to better address their specific human capital challenges.

Mr. Chairman, we believe that Congress will eventually want to address human capital legislative reforms similar to those discussed in your recent report—reforms in such key areas as improving the federal hiring system, providing more flexible pay approaches, enhancing career development and training, and improving employee accountability. However, we also believe that federal agency leaders cannot afford to wait for these kinds of legislative reforms to arrive. Their first priority must be to provide the leadership and take administrative steps to improve their human capital management using the authorities already available under existing laws and regulations. This will not only benefit their agencies, but give decisionmakers in the executive branch and Congress a better understanding of what works and what does not, and allow them to draw lessons from these experiences to build an eventual consensus for the needed comprehensive legislative reforms.

Our view is that the vast majority of the needed improvements in human capital management could be achieved if federal agencies took a more strategic and performance-based approach to managing their workforces—for example, performing effective workforce planning, developing performance goals and measures to address their workforce challenges, and linking employee performance to results. Agency leaders need to commit their organizations to valuing and investing in their employees, empowering and providing them the tools to do their best, and implementing the modern performance management and incentives systems needed to focus their efforts on achieving agency missions and goals. What is needed is leadership, vision, commitment, persistence, and accountability.

Now that strategic human capital management has been added to the list of high-risk areas, it is logical to ask what needs to occur for it to be removed. The answer is two-fold. First, the key players in the human capital area—agency leaders, OMB, OPM, and Congress—need to play their parts in effectuating meaningful and lasting change. Just as modern performance management principles have been brought to federal financial management, information technology management, and strategic planning/performance measurement, they must also be brought to federal human capital management. Second, we will need to see measurable and sustainable improvements in the economy, efficiency, and effectiveness with which the government as a whole and the individual agencies manage their workforces to achieve their missions and goals.

Before I outline some of the challenges that led to our designation of strategic human capital management as a governmentwide high-risk area, and some of the steps that could be taken to help ameliorate these challenges, I would like to underscore one important point: Although federal human capital management is a high-risk area, federal employees are not the problem. Rather, the problem is the lack of a consistent strategic approach to marshaling, managing, and maintaining the human capital needed to ensure maximum government performance and accountability. The federal government's approach to people management includes a range of outmoded attitudes, policies, and practices that warrant serious and sustained attention. To view federal employees as costs to be cut rather than as assets to be valued would be to take a narrow and shortsighted view—one that is obsolete and must be changed.

Strategic Human Capital Management Is a Pervasive Challenge in the Federal Government

As our studies of private and public sector organizations have shown, high-performing organizations focus on valuing and investing in their employees and on aligning their "people policies" to support organizational performance goals. However, federal agencies have not consistently made these principles a part of their strategic and programmatic approaches to mission accomplishment. As our PAS and other reports have indicated, federal agencies are experiencing human capital challenges in such key areas as (1) strategic human capital planning and organizational alignment; (2) leadership continuity and succession planning; (3) acquiring and developing staffs whose size, skills, and deployment meet agency needs; and (4) creating results-oriented organizational cultures. Just as important, our recent PAS reports frequently cited agencies' human capital shortfalls as contributing to programmatic problems and risks. These programmatic challenges are likely to go unresolved if agencies do not take steps to ensure that

they have sufficient numbers of people in place with the right skills, tools, performance management systems, and incentives to get the job done right.

Strategic Human Capital Planning and Organizational Alignment

High-performing organizations establish a clear set of organizational intents—mission, vision, core values, goals and objectives, and strategies—and then integrate their human capital strategies to support these strategic and programmatic goals. However, under downsizing, budgetary, and other pressures, agencies have not consistently taken a strategic and results-oriented approach to human capital planning.

Today, human capital challenges are common across the federal landscape. (See attachment I.) For example, at the National Aeronautics and Space Administration (NASA), internal studies found that a one-third reduction in the space shuttle program's workforce had affected NASA's ability to safely support the shuttle's planned flight rate. At the Department of Defense (DOD), where a Defense Science Board task force found that "there is no overarching framework" for planning DOD's future workforce, civilian downsizing has led to skills and experience imbalances that are jeopardizing acquisition and logistics capacities. In addition, the State Department is having difficulty recruiting and retaining Foreign Service Officers, as well as staff for counternarcotics efforts. Also, staffing shortfalls in the procurement area have hampered U.S. Agency for International Development (USAID) reconstruction assistance in the wake of natural disasters. Although many agencies have begun to recognize the importance of human capital to mission accomplishment and have taken steps to align their human capital with their missions, goals, and other needs, it is clear that many agencies still find themselves facing serious human capital challenges that will require the sustained attention and commitment of agency leaders.

GPRA's strategic planning requirements provide a useful framework for agencies to integrate their human capital strategies with their strategic and programmatic planning—and in particular, to identify the workforce size, skills mix, and deployment needed for mission accomplishment and to create strategies to fill the gaps. However, while agencies' fiscal year 2001 annual performance plans all included at least some discussion of human capital, the discussions varied widely in scope and specificity. Some agencies' plans provided detailed goals, objectives, and strategies for human capital management, while others merely noted the importance of human capital in general terms. In either case, agencies will need to follow up through effective implementation and assessment to determine whether their plans lead to improvements in human capital management and programmatic outcomes.

Leadership Continuity and Succession Planning

Because the transition to modern performance management will entail changes in management systems and organizational cultures that will take years to implement, it will require long-term commitment on the part of agency leaders and managers. However, whether at the top leadership levels or among managers, many agencies are plagued by turnover that could hamper these efforts. For example, the Health Care Financing Administration (HCFA), which administers the multibillion dollar Medicare program, has had 19 Administrators or Acting Administrators in its 24 years of existence—an inhibiting factor in the implementation of long-term Medicare initiatives and the pursuit of a consistent management strategy. At the Department of Energy

(DOE), the office responsible for the Stockpile Stewardship Program has seen the proportion of offices vacant or with acting managers rise from 17 percent in 1996 to almost 65 percent in 2000. This high turnover may help account for the fact that the same programmatic concerns in the nuclear weapons stockpiling program are cited by GAO year after year.

We have noted that successful organizations know the importance of fostering a committed leadership team and providing reasonable continuity through succession planning and executive development. The customarily high turnover rate among political appointees has been a long-standing issue at the upper levels of the executive branch. But succession planning for career executives—always a challenge for federal agencies—looms especially large as the current corps of Senior Executive Service (SES) members approaches retirement age. The retirement eligibility trends suggest a loss in leadership continuity, institutional knowledge, and expertise in the SES ranks—impacts that will be felt to varying degrees among federal agencies and occupations. Agencies need to aggressively pursue the comprehensive SES succession planning and executive development actions needed to address this issue.

A related leadership issue involves executive compensation. Federal executives must often compete for talent against private sector organizations that compensate their executives at levels far above what the federal government offers. Moreover, the existing cap on SES pay has increased pay compression between the maximum and lower SES pay levels, meaning that federal executives at different levels of responsibility can receive identical salaries. Further, pay compression can create situations in which the difference between executive and nonexecutive pay is so small that the financial incentive for managers to apply for positions of greater responsibility may disappear.

Acquiring and Developing Staffs Whose Size, Skills, and Deployment Meet Agency Needs

High-performing organizations identify their current and future human capital needs—including the appropriate number of employees, the key competencies for mission accomplishment, and the appropriate deployment of staff across the organization—and then create strategies for identifying and filling the gaps.

Faced with growing retirement eligibilities—some 35 percent of the fiscal year 1998 federal workforce will be eligible for regular retirement by 2006—agencies may have difficulties replacing the loss of skilled and experienced staff. Moreover, some agencies face imposing challenges in attempting to fill certain mission-critical occupations because of increasing competition in the labor market. For example, the Nuclear Regulatory Commission (NRC) must deal with declining university enrollments in nuclear engineering and other fields related to nuclear safety. A nationwide nursing shortage threatens efforts by the Department of Veterans Affairs (VA) to improve performance at VA hospitals, thereby putting veterans' care at risk. Further, the Department of the Interior and the U.S. Forest Service must maintain their firefighting capacity during catastrophic events, even as experienced fire personnel retire and prove increasingly difficult to replace.

In confronting staffing challenges such as these, agencies must engage in effective recruiting and succession planning strategies. This includes attracting and retaining skilled and knowledgeable individuals whose performance meets or exceeds expectations, regardless of their age. All

decisions with regard to recruiting and retention—as in every area of human capital management—must be based on clearly defined, well-documented, consistently applied, transparent criteria that are nondiscriminatory and merit-based. To deal with their recruiting and retention challenges, agencies also need to identify and use the recruiting, hiring, and retention flexibilities available to them. For example, under delegation agreements with OPM, agencies can conduct their own competitive examining for all positions; they can use commercial recruiting firms and nonprofit employment services to recruit job candidates; they can provide lump-sum recruiting or relocation bonuses to employees in positions that would otherwise be difficult to fill; and, under regulations recently issued by OPM, they can help repay new employees' educational loans. Similarly, to retain needed skills, agencies have discretionary authority to provide retention allowances of up to 25 percent of salary for individual employees, and can request of OPM authority to provide similar retention allowances for groups or categories of employees.

It is also crucial for agencies to invest in training and developing staff to meet agencies' specific performance needs. In the 1990s, changes in the law added considerable flexibility to the training federal employees may receive. However, anecdotal evidence suggests that during the same period, as agencies tried to save on workforce-related costs during downsizing, they cut back not just on staff but on other human capital investments, such as the training and professional development programs they would need if their smaller workforces were to compensate for institutional losses in skills and experience. Agencies we reported on last year faced a number of challenges in this area, including a lack of staff and resources to develop training and development programs to ensure that their employees had the competencies needed to perform mission-critical activities. A particularly critical area on which better investments in training should be focused is contract management, where agencies must have enough skilled staff on board to oversee the quality, cost, and timeliness of products and services delivered by third parties—and where agencies such as DOE, HCFA, and the Department of Housing and Urban Development (HUD), among others, have experienced costly performance problems.

Creating Results-Oriented Organizational Cultures

In many government entities, the transition to modern performance management—and along with it, to strategic human capital management—will require a cultural transformation. Hierarchical management approaches will need to yield to partnerial approaches. Process-oriented ways of doing business will need to yield to results-oriented ones. And "siloe" or (stovepiped) organizations will need to become integrated organizations if they expect to make the most of the knowledge, skills, and abilities of their people. Agencies that expect to make the best use of their human capital will need to establish a strong performance culture—including appropriate performance measures and rewards and a focus on continuous learning and knowledge management—that supports employees in the accomplishment of their organizational missions.

Many federal agencies lack organizational cultures that promote high performance and appropriate accountability. In fact, the results of our 2000 survey of federal managers indicated that in some key areas, agencies may be losing ground in their efforts to build organizational cultures that focus on results. For example, in one important area—use of performance information for program management activities—a significantly lower percentage of managers

reported that they were using such information to a great or very great extent in 2000 than in 1997 for five out of eight key management activities we asked about. (See table 1.) Overall, the survey findings underscored the importance of having agency leaders and managers with the skills and commitment to drive cultural change.

Organizational cultures can be a barrier to high performance and make management improvement efforts more difficult. For example, a stovepiped culture at the Federal Aviation Administration (FAA) has been one of several underlying causes of acquisition problems in the agency's multibillion dollar modernization program, which has experienced cost overruns, schedule delays, and significant performance shortfalls. Cultural issues have also been linked to long-standing security problems at DOE weapons laboratories, and to intractable waste, fraud, abuse, and mismanagement problems in the Social Security Administration's (SSA) high-risk Supplemental Security Income program.

Agency leaders and managers have a number of strategies available to them to help them steer their organizational cultures to support agency goals. These include modern performance management and incentive approaches—directed at either individual employees or teams—to help empower and motivate staff, reward high performance, and ensure accountability. In 1995, the federal government's performance appraisal and rewards policies were substantially deregulated, with the express intent, OPM reported, of promoting decentralized employee performance management systems that conform to agencies' specific missions and cultures. Agencies have more flexibility than in previous times to develop and, with OPM approval, implement performance appraisal systems to meet their specific goals and needs. For example, performance appraisals may now incorporate performance goals and objectives measured at team and organizational levels, and take group and organizational performance into account when assigning ratings above "Unacceptable." Flexibilities such as these are important as agencies try to establish a "line of sight" between individual employees and their agencies' organizational goals and objectives. However, agencies we have studied have struggled to link employee performance expectations to agency goals; further, many have reported that they do not know whether their incentive programs are effectively motivating their employees.

Human Capital Problems Will Require the Sustained Commitment of Executive and Legislative Branch Leaders

As leaders and managers in the federal government have become more acutely aware of challenges facing the government in the human capital area, some have taken steps to improve their approaches to building and maintaining human capital. However, agencies' human capital problems are invariably difficult and the associated programmatic risks continue to take their toll. The key players in the human capital area—agency leaders, OMB, OPM, and Congress—all need to play their parts in creating changes.

Agency Leaders Need to Focus on Human Capital

The key change for agency leaders who hope to improve their agencies' human capital management is to focus on people as a strategic asset. Workforce planning is an essential step. Agencies need to determine their current and future workforce needs, assess how their current and anticipated future workforce compares with these needs, and develop effective strategies to

fill the gaps. A useful tool for assessing overall human capital management is GAO's human capital framework, which identifies a number of human capital elements and underlying values that are common to high-performing organizations. (See attachment II.) As our framework makes apparent, agencies must address a range of interrelated elements to ensure that their human capital approaches effectively support mission accomplishment. Although no single recipe exists for successful human capital management, high-performing organizations recognize that all human capital policies, practices, and investments must be designed, implemented, and assessed by the standard of how well they support the organization's vision of what it is and where it wants to go.

Although some steps that agencies might want to pursue would require legislative actions, there is nothing to prevent agencies from including in their strategic and programmatic planning the fundamental elements of human capital management that we and others have identified. Rather than wait for reforms to arrive, agency leaders must take the initiative to be more competitive in attracting new employees with critical skills; in creating the kinds of performance incentives and training programs that motivate and empower employees and in building management-labor relationships that are based on common interests and the public trust.

Agencies need to become better informed about human capital management. They need to learn more about what is being done in the human capital area by agencies that have taken the initiative—what approaches have worked, what have not, and what lessons can be drawn from others' experiences and used to improve their organizations' approaches to managing their human capital. They must also learn more about the tools and flexibilities available to them and make better use of them than they have in the past. One publication that OPM developed, the *HR Innovator's Tool Kit*, includes nearly 100 tools and flexibilities at agencies' disposal, ranging from recruiting and relocation bonuses to retention allowances. Agency leaders can and must take steps immediately to identify their human capital needs and create informed, forward-looking strategies to fill them.

As we noted in our PAS reports, some of the agencies whose human capital problems were mentioned earlier—such as NASA, HCFA, and NRC—already have efforts under way to address them. Similarly, OPM has cited numerous examples of effective human capital initiatives, among them the following

- The Bureau of the Census has used technology to reduce hiring time. The agency has an electronic hiring system that provides managers with desktop, web-based access and an electronic applicant tracking feature that allows managers to see images of applicant resumes and transcripts within 24 hours of receipt. According to OPM, the electronic hiring system has helped the Census Bureau reduce the time required to fill computer specialist, statistician, and mathematical statistician positions from 6 months to as little as 3 days. Since September 1998, the agency has filled 1,000 vacancies using this process.
- The State Department is using existing pay flexibilities to create incentives for learning. It pays retention allowances ranging from 5 to 15 percent to certain information technology workers who obtain job-related degrees and certifications. OPM reported that after 1 year of operation,

this program has helped to significantly reduce turnover and increase the skills base of State's information technology workforce.

- The Veterans Affairs Healthcare Network for Upstate New York is involving its employees in organizational goal-setting. It has taken an innovative approach to creating a clear "line of sight" between employees and organizational goals. Each employee helps to develop work unit "stretch" goals tied to accomplishing the agency's strategic goals. These goals are always at least 10 percent higher than the consensus expectation for the amount of work that should be accomplished. OPM has reported that, since the program began, the Upstate New York program has reduced costs per patient, improved customer service, and attracted more patients.

We have not examined these examples ourselves, so I cannot with certainty endorse them as "best practices." However, it is encouraging whenever we learn of agencies that are taking innovative steps to meet their human capital needs. As I mentioned earlier, for agencies to pursue human capital strategies that effectively support their specific needs and circumstances, they must identify and use the tools and flexibilities available to them under current law. As we have previously reported, some of the barriers to effective strategic human capital management in the federal government do not stem from law or regulation but are imposed by agencies on themselves. Sometimes, the source is a lack of understanding of the prerogatives that agencies have, and sometimes it is outmoded attitudes about the basic ways in which people ought to be managed. However, changing times demand new approaches, and agencies need to be innovative and energetic in their use of the human capital tools and flexibilities available to them.

OMB and OPM Must Be Leaders

It is clear that OMB and OPM have substantial roles to play in fostering a more results-oriented approach to strategic human capital management across government.

OPM has begun stressing to agencies the importance of integrating strategic human capital management into agency planning. OPM has also been focusing more attention on developing tools to help agencies. For example, it is developing a workforce planning model, with associated research tools and has launched a web site to facilitate information sharing about workforce planning issues. OPM has also brought attention to the need for integrating human capital professionals into agencies' planning processes in acknowledging that a gap exists between the roles that federal human capital professionals need to perform—such as those of technical expert and strategic partner—and those that they have traditionally been given. Further, OPM recently revised the SES performance management regulations so that a balanced scorecard of customer satisfaction, employee perspectives, and organizational results will be used by agencies to evaluate executive performance. In addition, OPM has recently helped to achieve incremental legislative reforms to help attract and retain federal employees, such as compensation flexibility for selected specialist positions and employee benefit enhancements.

I would suggest two areas in which OPM could make substantial additional contributions. The first would be in reviewing existing OPM regulations and guidance to determine their continued relevance and utility. OPM could ask of every major rule and regulation: Is it up-to-date? Is it clear and understandable? Does it provide agencies with the flexibilities they need while incorporating adequate protections to employees? The second area would be in making human

capital flexibilities and best practices more widely known to the agencies, and in taking fullest advantage of OPM's ability to facilitate information-sharing and outreach to human capital managers throughout the federal government. An example of such an effort was OPM's Workforce Planning Conference, held in September 2000. With this as in all such leadership and information-sharing initiatives, the sustained commitment and attention of OPM will be critical to making a real difference in the way federal agencies manage their human capital.

Characterizing the most appropriate mission and role for OPM, and defining the most effective tools and strategies for accomplishing its goals in a changing civil service, have been long-standing issues facing the agency. OPM's recent efforts to communicate the importance of aligning human capital with results clearly reflect the important role it can play in promoting human capital improvements. It is likely that OPM will continue moving from "rules to tools," and that its most valuable contributions in the future will come less from traditional compliance activities than from its initiatives as a strategic partner to the agencies.

While OPM has recently done more to promote strategic human capital management, OMB has played a limited role in this key area to date. OMB's role in setting governmentwide management priorities and defining resource allocations will be critical to inducing agencies to integrate strategic human capital management into their core business processes. In 2000, two key steps were taken that reflected OMB's potential importance in this area. First, the President's fiscal year 2001 budget gave new prominence to human capital management by making "align Federal human resources to support agency goals" a Priority Management Objective. Second, a June 2000 presidential memorandum directed the heads of the executive branch departments and agencies to integrate human resources management into their planning, budgeting, and mission evaluation processes. The memo also directed agencies to include specific human resource management goals and objectives in their strategic and annual performance plans, beginning October 1, 2000. OMB's latest Circular No. A-11 guidance on preparing annual performance plans now states that agencies' fiscal year 2002 annual performance plans should set goals in such areas as recruitment, retention, training, appraisals linked to program performance, workforce diversity, streamlining, and family-friendly programs.

These actions by OMB will prove to be useful steps if they result in a better governmentwide focus on the strategic importance of human capital. What is now required is the sustained and forceful leadership to make the promise of these initiatives a reality. This will require much greater attention by OMB to the "M" side of its mission, and specifically to agencies' strategic human capital management. OMB has the ability to ensure that agencies view strategic human capital management as a critically important element in their overall strategic planning, performance management, and budgeting efforts. Important areas for attention include benchmarking and best practices efforts within the executive branch and greater attention during resource allocation to the linkages between agency missions and the human capital needed to pursue them. OMB budget examiners can help ensure that agencies factor in their human capital needs and answer critical questions, such as whether current resources are sufficient and whether they are being allocated in the manner best suited to promote mission accomplishment. OPM can help promote human capital management improvements, but OMB must be directly involved in this area, given its importance from both a mission accomplishment and resource allocation perspective.

Congressional Leadership Will Be Critical to Improving Human Capital Governmentwide

Leadership on the part of Congress will be critical if governmentwide improvements in strategic human capital management are to occur. To raise the visibility of the human capital issue and to move toward a consensus on legislative reforms, commitment to people as an urgent federal management concern must come from both parties in both houses of Congress. As I noted earlier, among the most encouraging developments in this regard have been the efforts of this Subcommittee and SGA to draw attention to human capital issues, including no less than six pertinent hearings by this Subcommittee in the past 2 years.

Through its creation over the past decade of the performance management framework, Congress has been the institutional champion for improving the management of the federal government. On an agency-specific basis as well, support from Congress has been indispensable to instituting and sustaining management reforms. Congress has opportunities available through its confirmation, oversight and appropriations, and legislative roles to ensure that agencies recognize their responsibilities and have the needed tools to manage their people for results.

First, Congress can draw wider attention to the critical role of human capital in the performance management paradigm. One means of focusing on the critical link between people management and program results is through the appointment and confirmation process, where the Senate has an opportunity to make clear its commitment to sound federal management and to explore what prospective nominees plan to do to ensure that their agencies recognize and enhance the value of their people.

As part of the oversight and appropriations processes, Congress can examine whether agencies are managing their human capital to improve the effectiveness, efficiency, and economy of their programs and deliver better performance for the American people. Congress can also encourage more agencies to identify the flexibilities available to them under current law and to reexamine their approaches to strategic human capital management in the context of their individual missions, goals, and other organizational needs.

Further, Congress can play a defining role in determining the scope and appropriateness of additional human capital flexibilities agencies may seek through legislation. For agencies that request legislative exceptions from current civil service constraints, Congress can require that they make a sound business case based on rational and fact-based analyses of their needs, the constraints under which they presently operate, and the flexibilities available to them. For example, before we submitted human capital legislative proposals for GAO last year, we applied the due diligence needed not only to identify in our own minds the flexibilities we needed to better manage our human capital, but also to give Congress a clear indication of our needs, our rationale, and the steps we were committed to taking in order to maximize the benefits while managing the risks. The process we followed included a thorough analysis of our human capital needs and flexibilities, clear standards for implementation, and multiple opportunities for employee involvement and feedback. The legislative flexibilities we eventually received, tailored as they were to our specific needs, may not be appropriate for other federal employers. However, the process we followed in identifying and making a sound business case for these flexibilities is one that would be sensible for other agencies to follow.

To address the federal government's emerging human capital challenges, Congress may wish to consider a variety of targeted investments or new flexibilities while maintaining appropriate safeguards to prevent abuse. Our view is that any legislative proposals involving federal human capital management should be considered in light of the same modern performance management principles that Congress applied in reforming federal financial, information technology, and results-oriented management. In short, will such changes help federal agencies improve their ability to economically, efficiently, and effectively serve the American people? For example, when Congress recently passed amendments to legislation to enable federal agencies to provide some education-related debt relief in exchange for government service, it recognized that for federal agencies to maintain the diverse and knowledgeable workforce they need for mission accomplishment, they must be able to compete effectively with the private sector for educated recruits.

Additional legislative actions could be considered, including the areas in which you, Mr. Chairman, made proposals in your report, such as improving the federal hiring system, providing more flexible pay approaches, enhancing career development and training, and improving employee accountability. A variety of proposals could be considered that might help the federal government compete for new employees and better manage the ones it has. These are just examples for the sake of discussion, but they reflect a range of areas in which opportunities exist to better equip federal employers. For example, Congress might address federal pay compression, perhaps by unlinking federal executive compensation from congressional pay, or perhaps by putting a higher cap on executive performance bonuses. Congress might address some of the succession planning issues associated with the rise in retirement eligibilities by considering phased retirement (also called "retreat into retirement"), whereby employees with needed skills could change from full-time to part-time employment rather than retire all at once. Congress could explore greater flexibilities for federal agencies to enhance their skills mix by leveraging the expertise of private sector employees through innovative executive exchange programs, fellowships, or other arrangements with business or academic professionals. Congress might even consider legislative action to allow federal employees who travel on government business to keep their "frequent flyer" miles—a small benefit but one that private sector employers commonly provide their people as part of a mosaic of competitive employee benefits.

Ultimately, Congress may wish to consider comprehensive legislative reform in the human capital area to address the missing link in the performance management portfolio, giving agencies the tools and reasonable flexibilities they need to manage effectively while providing appropriate safeguards to prevent abuse. As part of this effort, Congress may also wish to consider the extent to which traditional "civil service" approaches—structures, oversight mechanisms, rules and regulations, and direction-setting—make sense for a government that is largely a knowledge-based enterprise that has adopted and is now implementing modern performance management principles.

Summary

People are the federal government's most valuable asset in managing for results. The importance of human capital is underscored by the numerous links we have identified between agencies' human capital shortfalls and their programmatic challenges. As noted earlier, a consensus has yet

to emerge on broad-based federal human capital legislative reform. However, even in the absence of fundamental legislative reform, federal agencies need to take a more strategic and integrated approach to human capital management and to maximize their efforts in such areas as workforce planning, recruiting and retention, succession planning, training and professional development, and performance management and rewards, within the context of current law. Just as modern performance management principles have been brought to federal financial management, information technology management, and results-oriented goal-setting and performance measurement, so they must be brought to federal human capital management. Congress, OMB, OPM, the agencies, and other interested parties should work together to make this happen.

Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions you or other Members of the Subcommittee may have at this time.