

REPORT TO THE PRESIDENT:
THE CRISIS IN HUMAN CAPITAL

REPORT

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REPORT TO THE PRESIDENT: THE CRISIS IN HUMAN CAPITAL

**Report by Senator George V. Voinovich, Chairman
Subcommittee on Oversight of Government Management,
Restructuring and the District of Columbia
Committee on Governmental Affairs
United States Senate, 106th Congress**

I. INTRODUCTION

During the 106th Congress, Senator George V. Voinovich, Chairman of the Subcommittee on Oversight of Government Management, Restructuring and the District of Columbia (“Subcommittee”), of the Committee on Governmental Affairs, has been actively examining the human capital management policies of the federal government. In over 30 years as an elected public servant, including eight years as Governor of Ohio, the Senator has learned that the individuals who administer the programs and services on which the public depends are the government’s greatest resource. However, it has become clear to the Senator during his short time in Washington that the federal government is ill-prepared to manage its human capital in the 21st century.

Empowering federal employees and the human capital crisis are two important themes which have shaped Senator Voinovich’s agenda and serve as a guide for reform. In regard to empowering federal employees, Senator Voinovich is interested in and enthusiastic about improving the management and work culture of the federal career civil service employees and middle-managers who do much of the heavy lifting yet receive little acclaim for their hard work. For years citizens have complained about slow and unresponsive bureaucracies, blaming federal employees for the problems. Perhaps the problems lie not with the employees, but with the management and culture of the workplace. Do employees receive the training they need? Are they receiving the proper incentives to do a good job? In short, is the government investing in its people? The Subcommittee’s goal is to identify the barriers that inhibit the effectiveness of federal employees and the specific changes, either administrative or legislative, which must take place to allow federal employees to maximize their talents and make a real difference in the lives of the American people.

The federal government is moving in the right direction. The Government Performance and Results Act of 1993 (“Results Act”) requires departments and agencies to adopt strategic plans, set goals and collect performance information to measure the effectiveness of their programs. However, Senator Voinovich is concerned that the formulation of strategic plans and performance goals may be a wasted exercise if it fails to include the perspectives of line employees and middle-managers who really know the programs and how to improve them. Federal employees must be brought into the strategic planning process and given a stake in the success of their programs. Empowered federal employees, working under the new strategic

framework provided by the Results Act, could help agencies achieve their goals and dramatically improve government operations, helping to restore the American people's confidence and trust in the federal government and its programs.

The human capital crisis is another issue confronting the federal government. Since 1993, the non-postal civilian workforce has been reduced by 384,000 positions overall,¹ and now stands at 1.8 million men and women.² These reductions were often accomplished through buy-outs, and those accepting buy-outs were usually close to retirement. Many agencies did not strategically assess their human resources requirements before initiating the downsizing of the 1990s, and as a result, agencies lost institutional knowledge and skills that are difficult to replace. During the same time period the government conducted little hiring, which has contributed to an aging of the overall workforce.

Today, the average federal employee is 45 years old, and more than half the workforce is between 45 and 69 years old. By 2004, 32 percent of the federal workforce will be eligible for regular retirement, and an additional 21 percent will be eligible for early retirement. That means by 2004, over 900,000 employees – over 50 percent of the workforce – will be eligible to leave federal service. Senator Voinovich does not expect them all to rush for the exit at once; nevertheless, the Subcommittee conservatively estimates based on the current rate of retirements that at least 660,000 employees will have retired by 2010, taking with them valuable and perhaps irreplaceable institutional knowledge, threatening to leave the government with an inexperienced and ineffective workforce. Any manager faced with such a potential loss within the next decade would recognize the immediate need for action to ensure the long-term viability of their organization.

As experienced employees retire from government service in large numbers, the government will have to hire a considerable number of younger workers to replace them. Surveys of young adults entering the workforce, including one detailed in the book *The New Public Service* by Brookings Institution government analyst Paul Light, indicate that fewer young people are considering careers in government service when compared to previous generations. In fact, many young adults consider the government an employer of last resort. This negative image of the government is further exacerbated by the perception that the federal government cannot compete with the private sector in terms of compensation and benefits. Indeed, with the thriving economy, low unemployment, and excellent opportunities in the private sector, the government may have to make a much greater investment in the pay and benefits of its employees, especially if it hopes to compete for and retain the technologically-savvy workforce necessary for government operations in a society increasingly driven by technology and information.

¹ It should be noted that there have been over 450,000 non-postal civilian positions cut since January 1993. Contemporaneously, 70,000 people have been hired, mostly in the Department of Justice (27,000), and the Department of Commerce for the census (37,000).

² Office of Personnel Management Fact Sheet, Total Federal Civilian Employment: Federal Employment Downsizing Statistics, January 2000 to January 1993.

With a keen appreciation for the challenges these issues present, Senator Voinovich believes we are left with a fundamental choice. Will the federal government invest the resources necessary to compete for talent in today's information workplace and become a world-class provider of services? Or will its inability to recruit, train, and retain the right people, and use them in the most effective manner possible, consign the federal government to increasing irrelevance, essentially reducing it to an entity that is incapable of functioning as anything more than an allocator of the nation's resources? Will its ability to properly execute its commercial-related activities, such as promoting trade, regulating commerce, and issuing patents, be diminished? Will its ability to provide for the national security be jeopardized? The federal government must develop and begin implementation of a comprehensive plan in the near future if the answer to the first question is to be "yes."

This report is the culmination of the review of human capital management conducted by Senator Voinovich and the Subcommittee during the 106th Congress. It details the actions he has taken to identify and address the challenges outlined above. Senator Voinovich intends to present this report to the transition team of the incoming administration, with the hope that the next president will take immediate action to reform human capital management in the federal government. Senator Voinovich looks forward to working with the new administration, members of the Senate and House, as well as federal employee unions, public policy think tanks and other interested parties, on this vital issue during the 107th Congress. It is and will continue to be an important part of Senator Voinovich's congressional agenda.

II. *SUBCOMMITTEE ACTIVITIES*

Successfully addressing the human capital crisis and empowering federal employees will not come about quickly nor easily. No single piece of legislation or executive order can accomplish these goals. For this effort to be successful, it must be embraced by Congress, career managers, and the employees who are on the front lines. Most importantly, it must be embraced by the next president, the senior leadership of the incoming administration, and the political appointees who will be placed in the highest management positions in departments and agencies. Without the sustained support of all of the stakeholders, this effort will fall short.

Senator Voinovich has taken a number of actions to bring much needed attention to this issue and develop ideas for reforms, which are outlined in this report. The most important activities are listed below.

- A. Senator Voinovich has worked closely with the U.S. General Accounting Office (GAO) to highlight the state of the federal workforce, both identifying problems and developing solutions. He has also requested four reports from GAO addressing various aspects of the human capital issue.
- B. From July 1999 through May 2000, the Subcommittee held six hearings which have examined various aspects of human capital management.

- C. The Subcommittee has conducted a survey of training budgets and activities at 12 federal agencies.

In addition to the Subcommittee activities, Senator Voinovich and Senator Mike DeWine (R-OH) introduced and passed legislation to help the Department of Defense realign its civilian workforce to better meet the needs of the post-Cold War environment. Senator Voinovich also cosponsored other important human capital initiatives. All of these activities are described in greater detail below.

A. *Cooperation with the U.S. General Accounting Office*

The U.S. General Accounting Office and its Chief Executive, the Honorable David M. Walker, Comptroller General of the United States, are aggressively addressing the human capital crisis. Mr. Walker has increased the resources that GAO devotes to analyzing this issue for the executive branch, and successfully sought legislation granting him new authority to reshape GAO's workforce to meet their future needs.

GAO has also been of great assistance to the Subcommittee during the 106th Congress. GAO officials testified at all six of the hearings which the Subcommittee held on human capital and management issues, and Mr. Walker himself testified before the Subcommittee on March 9, 2000, at its hearing, "Managing Human Capital in the 21st Century." His statement made a compelling case for addressing the human capital challenges confronting the federal government. The following are excerpts from his written testimony.³

We at GAO use the term "human capital" because – in contrast with traditional terms such as personnel and human resource management – it focuses on two principles that are critical in a performance management environment. First, people are assets whose value can be enhanced through investment. As the value of people increases, so does the performance capacity of the organization, and therefore its value to clients and other stakeholders. Second, an organization's human capital approaches must be aligned to support the mission, vision for the future, core values, goals, and strategies by which the organization has defined its direction and its expectations for itself and its people.

It is clear that, in many government entities, the transition to 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 siloed organizations will need to become integrated organizations if they expect to make the most of the

³ Statement of David Walker, Senate Hearing 106-547, March 9, 2000, pages 34, 32, 28, 29, and 29, respectively.

knowledge, skills, and abilities of their people.

At present, serious concerns are emerging about the aging of the federal workforce, the rise in retirement eligibilities, and the actions needed to ensure effective succession planning. The size and shape of the workforce, its skills needs and imbalances, and agencies' approaches to managing performance and incentives (e.g., lack of dispersion in ratings) – all need greater attention than they have been given.

As the federal performance management framework has evolved over the last decade, the government's human capital management has emerged as the missing link. For the performance management principles embodied in the new reforms to produce a more businesslike and results-oriented government, agencies must recognize the indispensable role of people in this transformation.

For performance management to succeed, three enablers will be needed: people, process and technology. All three are important, but the people dimension is the most crucial. Process was addressed by the Chief Financial Officers Act and related financial management legislation, as well as by the Government Performance and Results Act (GPRA). Technology was addressed by the Paperwork Reduction Act and the Clinger-Cohen Act. The people dimension has yet to find the broad conceptual acceptance or political consensus needed for fundamental reform to occur.

The federal workforce is aging; the baby boomers, with their valuable skills and experience, are drawing nearer to retirement; new employees joining the federal workforce today have different employment options and different career expectations from the generation that preceded them. In response to an increasingly competitive job market, federal agencies will need the tools and flexibilities to attract, hire and retain top-flight talent. More and more, the work that federal agencies do requires a knowledge-based workforce that is sophisticated in new technologies, flexible and open to continuous learning.

In his capacity as Chairman of the Subcommittee, Senator Voinovich has requested or co-requested the following reports addressing human capital, which are listed in chronological order below. A summary of each report follows.

- *Human Capital: Key Principles From Nine Private Sector Organizations*, GAO-GGD-00-28, January 2000.
- *Confirmation of Political Appointees: Eliciting Nominees' Views on Leadership and Management Issues*, GAO-GGD-00-174, August 2000.
- *Managing for Results: Federal Managers' Views Show Need for Ensuring Top*

Leadership Skills, GAO-01-127, October 2000.

- Requested on September 20, 2000, review of selected federal agencies to identify and examine specific cases in which federal managers have improved their agencies' performance by successfully utilizing employee involvement and empowerment strategies.

Human Capital: Key Principles From Nine Private Sector Organizations

This report was requested jointly by members of the Senate Committee on Governmental Affairs and House Committee on Government Reform.⁴ It provides insight into how some private organizations, recognized for good human capital practices, manage their people to achieve their missions and goals. The nine private sector organizations examined by GAO are: Federal Express, IBM, Marriott, Merck, Motorola, Sears, Roebuck and Company, Southwest Airlines, Weyerhaeuser, and Xerox.

Each of the nine organizations reviewed by GAO implemented human capital strategies and practices designed directly to support the achievement of their specific missions, strategic goals and core values. Although human capital management alone cannot ensure high performance, proper attention to the workforce is a fundamental building block to achieving an organization's mission and goals. Based upon their review, GAO identified 10 underlying and interrelated principles of human capital management that are common to high-performing organizations. The report offers practical examples for federal agencies as they try to improve their own human capital strategies. The principles outlined below could be adopted in many cases without statutory changes.⁵

Treat human capital management as being fundamental to strategic business management. Integrate human capital considerations when identifying the mission, strategic goals, and core values of the organization as well as when designing and implementing operational policies and practices.

Integrate human capital functional staff into management teams. Include human capital leaders as full members of the top management team rather than isolating them to provide after-the-fact support. Expand the strategic role of human capital staff beyond providing traditional personnel administration services.

⁴ Senators Fred Thompson, Joseph Lieberman, George Voinovich, Richard Durbin, Thad Cochran, Daniel Akaka; Representatives Dan Burton, Henry Waxman, Stephen Horn, Jim Turner, Joe Scarborough, Elijah Cummings.

⁵*Human Capital, Key Principles From Nine Private Sector Organizations*, GAO-GGD-00-28, January 2000, pages 6-18.

Leverage the internal human capital function with external expertise. Supplement internal human capital staff's knowledge and skills by seeking outside expertise from consultants, professional associations, and other organizations, as needed.

Hire, develop, and sustain leaders according to leadership characteristics identified as essential to achieving specific missions and goals. Identify the leadership traits needed to achieve high performance of mission and goals, and build and sustain the organization's pool of leaders through recruiting, hiring, development, retention, and succession policies and practices targeted at producing leaders with the identified characteristics.

Communicate a shared vision that all employees, working as one team, can strive to accomplish. Promote a common understanding of the mission, strategic goals, and core values toward which all employees are directed to work as a team to achieve. Create a line-of-sight between individual contributions and the organization's performance and results.

Hire, develop, and retain employees according to competencies. Identify the competencies - knowledge, skills, abilities, and behaviors - needed to achieve high performance of mission and goals, and build and sustain the organization's talent pool through recruitment, hiring, development, and retention policies and practices targeted at building and sustaining those competencies.

Use performance management systems, including pay and other meaningful incentives, to link performance to results. Provide incentives and hold employees accountable for contributing to the achievement of mission and goals. Reward those employees who meet or exceed clearly defined and transparent standards of high performance.

Support and reward teams to achieve high performance. Foster a culture in which individuals interact, support and learn from each other as a means of contributing to the high performance of their peers, units and the organization as a whole. Bring together the right people with the right competencies to achieve high performance as a result of, rather than in spite of, the organizational structure.

Integrate employee input into the design and implementation of human capital policies and practices. Incorporate the first-hand knowledge and insights of employees and employee groups to develop responsive human capital policies and practices. Empower employees by making them stakeholders in the development of solutions and new methods of promoting and achieving high performance of organizational missions and goals.

Measure the effectiveness of human capital policies and practices. Evaluate and

make fact-based decisions on whether human capital policies and practices support high performance of mission and goals. Identify the performance return on human capital investments.

Confirmation of Political Appointees: Eliciting Nominees' Views on Leadership and Management Issues

In 2001 and beyond, the Senate will consider the confirmation of hundreds of the next administration's nominees to senior positions. Nominees to political appointments requiring Senate confirmation should be highly qualified for the positions they are seeking. Years of inattention to human capital, the struggle to modernize financial and information management systems, and Congress' insistence that agencies measure and demonstrate results require new agency leaders to have a proven track record in the nuts and bolts of sound management and performance.

At the Subcommittee's March 9, 2000, hearing on human capital management, Mr. Walker stated that:

It is clear that federal agency leaders must create an integrated, strategic view of their human capital – and then sustain that attention to create real improvements in the way they manage their people. One of the emerging challenges for new presidential appointees will be to add to their traditional policy portfolios an understanding of the importance of performance management issues – and particularly, human capital issues – to the accomplishment of their agencies' policy and programmatic goals. Through its role in the appointment and confirmation process, the Senate may wish to ensure that future nominees to leadership roles in the executive agencies are committed to sound federal management, and in particular, to ensuring that their agencies recognize and enhance the value of their people.⁶

Senator Voinovich requested a management questionnaire for political appointees from GAO earlier this year which will assist the Senate in its constitutional role to advise and consent on presidential appointments. In response, GAO reached out to dozens of individuals and groups experienced in good government and efficient management to solicit their input. GAO reviewed and refined suggested questions, and the final product was released on September 7, 2000. Given the large turnover of political appointees that will occur in the coming months, this product could not be more important or timely.

The report includes 31 questions on human capital, performance measurement, financial management, and other factors that influence the quality of federal programs and services. Senator Voinovich envisions committees submitting the questions to nominees either before or

⁶ Statement of David Walker, Senate hearing 106-547, March 9, 2000, page 33.

during confirmation hearings. The questions are intended for those appointees who will have significant program management responsibilities, and their responses will inform the Senate of their management experience and preparedness for addressing the top management challenges facing federal agencies, both today and in the next decade. The following is a sample of the questions.⁷

Are you familiar with the strategic plan, annual performance plans, annual accountability report, and financial statements of your prospective agency? What do you consider to be the most important priorities and challenges facing the agency as it strives to achieve its goals? What changes, if any, do you feel might be necessary in these plans?

How would you address a situation in which you found that reliable, useful, and timely financial information was not routinely available?

Based on your experience, please explain the role technology should play in your agency to support mission needs. What measures would you implement to show the impact technology has in meeting these needs?

If you have spoken with your predecessors – those who have held the position you now seek – about their “lessons learned” on how to manage the agency effectively, describe how their advice and experience has influenced your thinking and plans.

To what extent, if any, do you believe that federal employees’ pay should be more closely tied to their agencies’ strategic and annual performance goals, and why?

Senator Voinovich does not expect any committee to ask a prospective nominee to answer all 31 questions, and some questions may not be appropriate for all nominees. Unlike the disclosure forms from the White House or Office of Government Ethics, the use of these questions is not mandatory. Rather, Senator Voinovich intends for this report to be a valuable tool in determining the qualifications of nominees. He urges his colleagues to use the questions in a manner they see fit, in conjunction with the procedures already employed by their committee and depending on the position to be confirmed and the amount of information the committee may require.

GAO is currently developing a second questionnaire to be issued before the start of the 107th Congress, which will include questions on agency-specific management problems drawn from sources such as the High-Risk series (areas identified by GAO as having great vulnerability to waste, fraud, abuse, and mismanagement) and inspectors general reports. Answers to these

⁷ *Confirmation of Political Appointees: Eliciting Nominees’ Views on Leadership and Management Issues*, GAO-GGD-00-174, August 2000, pages 5,7,8,10,11, respectively.

questions will assist senators in determining a nominee's knowledge of the programs and functions of the agency to which he or she is being appointed.

Senator Voinovich is cognizant that nominees for senior positions already face a daunting array of background investigations and questions regarding their suitability for appointment. The purpose is not to simply give prospective nominees additional paperwork, but to improve the quality of federal programs by improving the quality of the people appointed to manage them. We cannot afford, nor should we tolerate, the waste of taxpayer dollars due to incompetent or ill-prepared managers. Political appointees must be prepared to substantively address the problems at their agencies, not just give policy direction to the career civil servants. The questionnaires convey the message that the Senate considers effective managerial skills to be a priority for all nominees to senior agency positions.

Senator Voinovich has distributed the report to every member and committee in the Senate. He is also sharing both GAO questionnaires with the transition team of the next administration, with the hope that they will be successful in recruiting people with strong management backgrounds.

Managing for Results: Federal Managers' Views Show Need for Ensuring Top Leadership Skills

In 1997, GAO surveyed managers across the federal government to obtain information on their experiences with results-oriented management practices and related challenges. This survey was conducted in part to fulfill GAO's requirement under the Results Act to report to Congress on the implementation of and compliance with the act. Senator Voinovich requested that GAO update the survey, using the 1997 results as a baseline. He also requested that GAO include more questions about human capital management and how human capital considerations have fared during the implementation of the Results Act. *Managing for Results: Federal Managers' Views Show Need for Ensuring Top Leadership Skills*, contains the initial results of the 2000 survey. In early 2001, GAO will provide a report containing a more comprehensive analysis of the survey results.

The updated survey reveals both positive and negative trends in federal management across the 24 largest departments and independent agencies. In some instances, the data is broken down by Senior Executive Service (SES) and non-SES managers. Both categories are career employees. There are approximately 6,900 SES managers and 86,000 non-SES managers in the federal government. The survey data in the updated report will be broken down by agency, which will permit the Subcommittee to focus on specific federal agencies that are in need of top-level management attention.

The purpose of the updated survey is to identify the extent to which a performance culture

is being adopted by the executive branch. Some of the key findings of the report follow.⁸

Fifty-three percent of managers reported that their agencies' top leadership demonstrates a strong commitment to achieving results to a great or very great extent, statistically unchanged since 1997. When the data is broken down by Senior Executive Service (SES) and non-SES managers, the results are quite different. The percent of SES managers responding to a very great or great extent was 72, and the percent of non-SES managers responding to a very great or great extent was 52. Neither represents a significant change from 1997. This indicates that, seven years after Congress passed the Results Act, nearly half of non-SES career managers do not think their agency's leadership exhibits a strong commitment to results.

Federal managers did report an increase in five types of performance measures for their programs, which included statistically significant increases in three of five types of measures. However, the percentage responding that information obtained from performance measurement was subsequently used to implement program changes declined. For five of the eight activities that GAO asked about in both our surveys, the reported use to a great or very great extent was significantly lower in 2000. None of the eight activities reported use in 2000 was higher than it was in 1997. In other words, while more managers report that their programs have performance measures, fewer report that performance information is actually used to influence programs. "It suggests that efforts to increase the focus on results and the use of performance information are not penetrating the federal bureaucracy." This highlights a key failing of the effort to use performance measures to improve government performance.

Thirty-six percent of managers reported that managers at their levels have the decision making authority they need to help their agencies accomplish their strategic goals to a great or very great extent, statistically unchanged since 1997. Sixty-three percent of managers reported that managers at their levels are held accountable for the results of the programs for which they are responsible to a great or very great extent, a significant increase of eight points from the 1997 survey. These results suggest that managers feel they are more accountable, but they do not have more control over programmatic decisions.

Thirty-one percent of managers reported that, to a great or very great extent, employees in their agencies receive positive recognition for helping the agencies accomplish their strategic goals. The difference between the 1997 results does not approach statistical significance.

⁸ *Managing for Results, Federal Managers' Views Show Need for Ensuring Top Leadership Skills*, GAO-01-127, October 2000, pages 7, 11, 11, and 15, respectively.

These results constitute a stinging indictment of federal management. They are disappointing and underscore what Senator Voinovich and the Subcommittee have concluded: The federal government must invest more effort in developing a new performance-oriented culture that focuses on results, and the leadership of federal agencies (including SES, non-SES and appointed managers) must do more to bring this about.

Review of selected federal agencies to identify and examine specific cases in which federal managers have improved their agencies' performance by successfully utilizing employee involvement and empowerment strategies.

The Subcommittee is interested in identifying the steps necessary to foster a workplace environment in the federal government where employees maximize their talents and fully meet the needs of the American people. A major component already affecting the workplace environment is agencies' implementation of the Results Act, which Congress enacted to improve program effectiveness and public accountability by focusing on results, service quality and customer satisfaction. A key element in improving agency performance is the successful empowerment of employees and their direct involvement in achieving the goals of the organization.

On September 20, 2000, Senator Voinovich requested that GAO review selected federal agencies to identify and examine specific cases in which federal managers have improved their agencies' performance by successfully utilizing employee involvement and empowerment strategies, such as labor/management partnerships, delegations of authority, or other kinds of empowerment strategies. Specifically, the Subcommittee would like to know, for each case identified: the employee involvement or empowerment strategies used, the context in which the strategies were developed, the barriers, if any, that were overcome in implementing the strategies, and the improved results that federal managers attributed to these strategies. The Subcommittee intends to highlight such successful strategies as models to be used by other federal agencies.

B. *Subcommittee Hearings*

The key means of the Subcommittee's review were the six hearings held between July 1999 and May 2000, which are described below. Throughout these hearings, Senator Voinovich continually emphasized that the employees of the federal government should be treated as its most valued resource. The human capital challenges confronting the government were described in great detail, and many worthy proposals for improving the system were heard.

The Subcommittee has examined union-management partnerships, management reform initiatives, incentives programs, and employee training. Each issue is just one component in building a world-class civil service, and each hearing has built upon the previous one. There is an important synergy between these elements, and if one is weak, the other components are affected. It has been the Subcommittee's goal to demonstrate this synergy and stress that substantial change in all of the areas the Subcommittee has addressed is necessary to achieve real

and lasting improvements in government operations.

Twenty-three witnesses from the executive branch, state government, GAO, think-tanks, federal employee unions, and other interested groups testified. By involving all of these groups, the Subcommittee is trying to build a consensus for reform, knowing full-well that any significant human capital reforms must be passed on a bipartisan basis with the input of all interested stakeholders. Many of the recommendations received from these various groups during the course of the hearings are included in this report.

*“Total Quality Management: State Success Stories as a Model for the Federal Government,”
July 29, 1999*

Background

On July 29, 1999, the Subcommittee began its review of the federal government’s human capital policies with an oversight hearing entitled, “Total Quality Management: State Success Stories as a Model for the Federal Government.” The purpose of the hearing was to learn about the successful implementation in the State of Ohio of the Quality Services Through Partnership (QSTP, pronounced “Q-step”) program, Ohio’s brand of total quality management, and determine the feasibility of applying the key aspects of QSTP to the federal government.

As implemented in Ohio, QSTP is a system that attempts to transform the government into a high performance workplace. QSTP (1) focuses on internal (the government employee) and external (the taxpayer) customers; (2) establishes an environment that facilitates team building, employee contribution and responsibility, risk taking, and innovation; (3) analyzes work processes and systems; and (4) institutionalizes a goal of continuous improvement involving all employees.⁹ The success of QSTP is dependent upon union-management partnerships, robust employee training, modern personnel policies, and establishing a system to measure program outcomes.

Testimony

Mr. Steve Wall, Executive Director of the Ohio Office of Quality Services, and Ms. Teresa Shotwell-Haddix, Union Quality Coordinator for the Ohio Department of Transportation, testified on the QSTP initiative’s substantial contribution to the reinvention of Ohio State government. Management and the unions have come together in a unique partnership to guide the overall implementation of QSTP. The unions have been supportive of QSTP because it has

⁹ Florence Clark Riffe, *Words & Deeds, The Achievements of Governor George V. Voinovich*, Ohio University Special Publications, 1999, page 12.

included effective employee incentives, rewards and educational and training programs. Nearly every employee in State government is involved: some 54,000 employees having taken three days of quality management training. Senator Voinovich himself underwent the three days of quality management training with five union presidents.

Improving the training of front-line employees is a key element of QSTP. The Workforce Development Fund was established, and the union workforce agreed in their last collective bargaining agreement to allocate a nickel-an-hour of their raise, and an increasing increment thereafter, to the Fund. Employees can now tap into almost \$5,000 a year to spend on a variety of training options, such as college courses, career enhancement or computer training.

Teams of employees – those on the front lines – look to make improvements by determining customer needs, analyzing the current process and searching for ways to eliminate inefficiencies. Ohio’s state employees have established over 3,000 formal teams and thousands of informal teams. Each year, the State holds “Team-Up Ohio,” a public employee fair to highlight the efforts of the workplace reform teams. In Senator Voinovich’s last year as Governor, over 5,000 public employees attended, eager to show off their innovations and improvements.

These partnerships have yielded substantial improvements in performance, and in many cases, state employees proved that they can compete with the private sector. For example, a public golf course in Ohio was being poorly managed by a private contractor, repeatedly overspending its budget. State employees were given the opportunity to take over the management, and now they are turning a profit.¹⁰ Another good example is described in *Transcript*, the Ohio Department of Transportation monthly employee newsletter.¹¹ Ohio transportation workers re-paved a parking lot for about \$9,000 – \$7,000 less than a contractor would have charged.

In their testimony, Mr. Wall and Ms. Shotwell-Haddix conclude that through QSTP, the State of Ohio has saved money, ushered in a new era of management-employee cooperation, and vastly improved the operation and delivery of services. On March 9, 1997, an article in the *Washington Post* stated, “Ohio is one of the best examples of labor-management partnerships in government.”¹²

Mr. J. Christopher Mihm, Associate Director for Federal Management and Workforce Issues, General Accounting Office, and Ms. Deidre Lee, Acting Deputy Director for Management, Office of Management and Budget (OMB), submitted their statements for the

¹⁰ Oral testimony of Steve Wall, Senate hearing 106-351, July 29, 2000, page 12.

¹¹ *Transcript*, Ohio Department of Transportation employee newsletter, June 1999, pages 8-9.

¹² *The Washington Post Magazine*, March 9, 1997, page W08.

record. In his testimony, Mr. Mihm stated that if the federal government is to achieve major improvements as envisioned by the Results Act, it must have management and process improvement initiatives that employ the principles of quality management. Mr. Mihm outlined five principles that are common to both quality management and the performance-based system in the federal government. They are:¹³

Strong leadership that sets a clear and consistent vision of where the organization is going. Political appointees and senior career officials must work together to communicate this vision throughout the organization.

A clear understanding of what is to be accomplished and how progress will be gauged drives daily operations. Organizations recognize the importance of using results-oriented goals and quantifiable measures to address program performance.

High-performing organizations appreciate that effectively managing and developing an organization's human capital is essential to achieving results. Organizational success is possible only when the right employees are on board and are provided the training, tools, structures, incentives, and accountability to work effectively.

High-performing organizations understand and articulate how their day-to-day operations and processes contribute to mission-related results and improved customer satisfaction.

Decision making processes should be based on accurate, reliable, and timely data.

In her testimony, Ms. Lee stated that quality management principles and practices are widespread throughout the federal government. She said that federal departments and the National Partnership for Reinventing Government are focused on fiscal discipline, downsizing, restructuring, and other initiatives to make government "work better and cost less," while OMB has been focused on implementation of the Results Act, the 24 Priority Management Objectives, and streamlining.¹⁴

"Quality Management at the Federal Level," October 15, 1999

Background

On October 15, 1999, the Subcommittee held its second hearing on the federal government's human capital policies, entitled, "Quality Management at the Federal Level." The

¹³ Statement of J. Christopher Mihm, Senate hearing 106-351, October 15, 1999, pages 37-41.

¹⁴ Statement of Deidre A. Lee, Senate hearing 106-351, July 29, 1999, page 51.

purpose of the hearing was to examine federal agencies which are currently in the midst of substantial management and organizational change in order to learn how they are making the transition to a more results-oriented culture. It focused on the Internal Revenue Service (IRS) and the General Services Administration (GSA), both of which have undergone or initiated significant reorganizations in response to congressional oversight and criticism of management and customer service practices.

Testimony

The Honorable Charles O. Rossotti, Commissioner of the IRS, discussed how the IRS is changing as a result of the reorganization mandated by Congress. The agency has developed a new mission statement and now considers customer service, as opposed to enforcement actions, its highest priority. He discussed how rank and file employees were being involved in major decisions, and how important this is to a successful reorganization. “We have over 500 front-line people working from all parts of the IRS with us in a set of design teams and they are very carefully going through an analysis of what we need to do and have already come up with very effective recommendations on how we need to move forward, and we are going to continue to use that process as we implement this change.”¹⁵

A key part of the IRS restructuring was granting the agency greater flexibility to manage its personnel. This has allowed the IRS to recruit senior executives from the private sector who “had experience with some of these best practices that we are trying to implement.”¹⁶ The agency is allowed to offer them compensation up to the level of the vice president. As of the hearing, they had recruited seven executives using the new authorities.

Senator Voinovich asked if employees had been involved in developing the IRS’ new mission statement. Mr. Rossotti explained that the mission statement was developed with the input of both external and internal stakeholders, and that after receiving suggestions, a small group of IRS employees formulated a number of possible mission statements. Afterwards, employees were again given the chance to comment, and more than 1,000 employees responded. This is illustrative of the type of employee involvement that IRS management is trying to develop.

Mr. Rossotti also discussed the challenge of replacing antiquated information and data systems. “We are embarking on one of the biggest technology modernization programs that I have ever encountered, and I have spent 28 years in the business.” He stated that, “old technology that the IRS currently depends on is the biggest barrier that our employees have to being able to deliver quality service. So we are faced with almost a complete renewal and

¹⁵ Oral testimony of Charles Rossotti, Senate hearing 106-392, October 15, 1999, pages 6-7.

¹⁶ *Id.*, page 6.

reengineering of our technology base.”¹⁷ While the IRS has made significant initial progress in its reinvention, the reform effort underway will take at least a decade.

Ms. Martha Johnson, Chief of Staff of GSA, discussed agency changes over the last several years. The agency has also downsized significantly, going from roughly 20,000 employees in 1993 to 14,000 today, and has been reorganized to reflect the leaner workforce. Furthermore, GSA is no longer a mandatory supplier for federal agencies, and as a result, GSA has tried to make itself more competitive by leveraging technology, focusing on customer service, and increasing the “employability” of its workers.

In a knowledge society, every person has to be skilled. One way we approach this challenge is by turning an old idea on its head. The old idea is job security. Our new idea is employability. Our economy is robust and fluid. People need the security of knowing that they are desirable and competitive. Our job is to meet their curiosity and drive for skills with mechanisms to build their skill set.¹⁸

GSA has used the Internet extensively as a training tool and to solicit employee feedback. “We have a more informal but technologically-based conversation about the things going on at GSA, I think that is very important.”¹⁹ In addition, GSA has had its senior executives change jobs so that they develop skills in new areas. “We are delighted that GSA executives have changed jobs, the cheapest training possible ... Seeing the senior leadership changing jobs raises the bar for the entire organization.”²⁰

Ms. Colleen M. Kelley, National President of the National Treasury Employees Union, (NTEU), discussed the involvement of NTEU members in the IRS reorganization, and on balance is pleased with their participation and the results to date. Ms. Kelley stated that the modernization of the IRS called for the establishment of 11 different design teams. “More than 2,300 NTEU members responded to the initial possibility of involvement in the modernization of the IRS, even though their involvement on these teams meant many months away from home and from their families.”²¹ Eventually 150 employees participated on these teams, whose mission was to examine and analyze systems and processes in areas such as information technology and taxpayer services, and then recommend changes and improvements to the commissioner. The Restructuring Act also established the IRS oversight board. Congress placed an IRS employee representative on the board, insuring that employees’ views would be heard as the IRS

¹⁷ Id.

¹⁸ Oral testimony of Martha Johnson, Senate hearing 106-392, October 15, 1999, page 9.

¹⁹ Id, page 20.

²⁰ Id, page 9.

²¹ Oral testimony of Colleen Kelley, Senate hearing 106-392, October 15, 1999, page 25.

restructures. Ms. Kelley said that “partnership is an avenue that permits us to work together towards our shared goal, and for that reason, we have embraced it.”²²

Ms. Kelley stressed that customer service has been an important part of the agency’s reinvention.

One particular focus of our partnership with the IRS has been improving customer service. This has included providing not just longer office hours, but hours which meet the taxpayers’ needs, such as taking our services to more customer-friendly environments like libraries and shopping malls, employing the latest technology to do this, and also providing the critical training that employees need to do the job that they want to do.²³

The agency also established Problem Solving Days. This is a nationwide effort to provide taxpayers with direct assistance with tax questions and problems. Following the first series of Problem Solving Days, taxpayers rated employees on their courtesy, competence, fairness of treatment, effort put forth toward solving problems, and convenience of office hours. Surveys have shown that both taxpayers and employees believed these efforts were successful. “Given a clear goal and adequate time and resources, IRS employees can deliver a level of service that in many cases actually exceeds that expected by taxpayers.”²⁴

Mr. Bobby L. Harnage, Sr., National President of the American Federation of Government Employees (AFGE), testified on behalf of the largest federal employees union. Mr. Harnage was critical of GSA’s management, arguing that GSA was reluctant to involve employees in major agency decisions. Mr. Harnage said that, “success stories of labor-management partnerships in the federal government are still largely the exceptions,”²⁵ though he also expressed his hope that relations with GSA management would improve in the future. He did, however, point to two other examples that he believes illustrate excellent management-labor relations: the U.S. Mint and the U.S. Navy Crane Naval Surface Warfare Center (“Crane”) in Crane, Indiana. “The key to success at the Mint, as it is at Crane, is the willingness of the agencies to engage the union as a full partner in the most important, fundamental issues of the workplace.”²⁶

Crane is an acquisition and fleet support organization. It has a \$500 million annual

²² Id.

²³ Id, page 24.

²⁴ Id, page 25.

²⁵ Statement of Bobby Harnage, Sr., Senate hearing 106-392, October 15, 1999, page 78.

²⁶ Oral testimony of Bobby Harnage, Sr., Senate hearing 106-392, October 15, 1999, page 27.

budget and is the 12th largest employer in Indiana. Faced with downsizing and outsourcing, AFGE members and Crane management formed a partnership to ensure the future of the installation.

As the partners began to realize that the very future of their facility was under threat, they joined together to turn things around. The union and management are putting into place an ambitious and courageous business and processes reengineering. They have identified millions of dollars in projected savings and are making decisions, based on data, about what kind of work they should be doing and how they should be doing it. In addition to saving millions of dollars, they possibly are also saving lives.²⁷

Mr. Harnage explained that the Mint and AFGE had “had a long history of adversarial relationships and spent far more time trying to win cases against each other rather than trying to improve the way we did our jobs.”²⁸ However, Mint Director Philip Diehl agreed that the union should be included in the development of the strategic plan, and AFGE and the Mint signed a partnership agreement in 1994. “Since the first joint strategic planning meeting in 1994, AFGE and the Mint have worked together to reach the goals they set and refine them each year.”²⁹

Mr. Harnage described the impressive results since then. In 1997, \$1.4 million in cost savings, cost avoidance, and improved resources allocations was documented. In 1998, the partnership managed to reduce expenses by an additional \$4.7 million. Profits from producing and selling circulating coins have increased by \$166 million, and “the amount of money the Mint has sent back to the American people through the general fund has increased from \$465 million to \$562 million.”³⁰ The Mint estimates that 25 percent of this increase was attributable to cost reduction measures that the partnership had put in place.

The primary witness for the General Accounting Office was Mr. J. Christopher Mihm, Associate Director of Federal Management and Workforce Issues, General Government Division, accompanied by Mr. James R. White, Director of Tax Policy and Administration Issues, General Government Division, and Mr. Bernard Ungar, Director of Government Business Operations Issues, General Government Division. Mr. Mihm discussed six necessary elements for government agencies to undertake reforms successfully: (1) a demonstrated leadership commitment and accountability for change; (2) the integration of management improvement initiatives into programmatic decision making; (3) thoughtful and rigorous planning to guide decisions, particularly to address human capital and information technology issues; (4) employee

²⁷ Id.

²⁸ Id.

²⁹ Id.

³⁰ Id.

involvement to elicit ideas and build commitment and accountability; (5) organizational alignment to streamline operations and clarify accountability; (6) strong and continuing congressional involvement.

The auditors painted a bleak picture of the involvement of federal managers in the activities of their agencies. A survey conducted by GAO in late 1996 and 1997 found that: only one-third of non-Senior Executive Service managers (as opposed to nearly three-fourths of the Senior Executive Service managers) reported involvement in establishing long-term strategic goals for their agencies; less than one-third of non-Senior Executive Service managers felt that to a great or very great extent they had the decision making authority needed to accomplish strategic goals; only about half of the managers surveyed reported that they were being held accountable for program results; and only one-fourth of non-Senior Executive Service managers reported that to a great or very great extent employees received positive recognition from their agencies for efforts to help accomplish strategic goals.³¹

“Managing Human Capital in the Twenty-First Century,” March 9, 2000

Background

On March 9, 2000, the Subcommittee held its third human capital hearing entitled, “Managing Human Capital in the Twenty-first Century.” The hearing focused on the human capital management challenges that will confront the federal government during the coming decade and what should be done to meet those challenges. U.S. General Accounting Office Comptroller General David Walker and Office of Personnel Management Director Janice Lachance testified.

Before the hearing itself is described, it is useful to review what GAO and the Office of personnel Management (OPM) are doing to address the government’s human capital challenges. Mr. Walker is directing substantial GAO resources to human capital issues, and is considering adding human capital to GAO’s High-Risk list in January 2001.³² GAO’s Strategic Objective Plan 2000-2002 includes a section entitled, “Identify and Facilitate the Implementation of Human Capital Practices That Will Improve Federal Economy, Efficiency, and Effectiveness.” The plan states:³³

Among federal agencies’ assets, one of the most important is their workforce. For

³¹ Oral testimony of J. Christopher Mihm, Senate hearing 106-392, October 15, 1999, page 35. See also *Managing for Results: Federal Managers’ Views Show Need for Ensuring Top Leadership Skills*, GAO-01-127, October 2000.

³² Oral testimony of David Walker, Senate hearing 106-547, March 9, 2000, page 7.

³³ *Governmentwide Management Reforms, Strategic Objective Plan, 2000-2002*, U.S. General Accounting Office, page 8.

agencies, building and maintaining an effective workforce – their human capital – is critical both to the accomplishment of their missions and to efficient, effective, and economical use of taxpayer funds. However, while financial management, information management, contracting, and performance management have all been the subject of major reform legislation in the 1990s, no consensus has emerged on the fundamental structural or policy changes that may be needed to address agencies’ management of their human capital.

At its core, sound human capital management requires a well-grounded analysis that continually links an agency’s human capital policies and practices to its mission and strategies. Yet strategic workforce planning has often been neglected in federal agencies. For example, despite an explicit requirement that agencies take human capital into account in developing their strategic plans under the Results Act, the majority of plans show little evidence that this has been done. The implications of poor human capital management are clear; not having enough staff with the necessary skills has limited several agencies’ ability to perform essential functions.

In this area, GAO will:³⁴

- Develop and promulgate a human capital self-assessment guide.
- Identify best practices for human capital management in leading private and public entities.
- Evaluate alternative models for identifying and developing executives.
- Evaluate retirement challenges facing federal agencies.
- Assess selected agencies’ human capital management practices.

The Clinton administration is also addressing federal workforce issues. In the fiscal year 2001 budget submission, the administration included in its list of 24 Priority Management Objectives:

Align federal human resources to support agency goals: Recognizing that people are critical to achieving results Americans care about, the Administration will undertake a strategic approach to human resources management. First, OPM will help agencies strategically assess their human resources to ensure a quality federal work force in the 21st Century. Among other things, in 2000, OPM will complete the design of a prototype work force planning model that will allow line managers to analyze their current work force and prepare “what-if” scenarios under a variety of recruitment, restructuring, or mission change models. Second, OPM will work with agencies to ensure labor-management initiatives to empower executives, line managers, and especially employees to improve customer service and get mission

³⁴ Id.

results. Third, OPM will encourage agencies to make better use of flexibilities in existing human resource policies, systems, and available tools. OPM will also submit legislative proposals, where necessary, consistent with these human resource management strategies.³⁵

According to OMB,³⁶ a fourth component was added: OMB will undertake actions to reinforce OPM's plan and to highlight direction given in a Presidential Memorandum issued on June 9, 2000, "Actions to Further Improve the Management of Federal Human Resources."³⁷ The memorandum directs the heads of each executive department and agency to take appropriate action to:

Fully integrate human resources management into your agency's planning, budgeting, and mission evaluation processes, and clearly state specific human resources management goals and objectives in your organization's strategic and annual performance plans;

Renew your commitment to recruit, develop, and manage your workforce to ensure high performance;

Provide for the continued development of a highly competent corps of human resources management professionals to assist agency line managers in ensuring the most effective use of their workforce to accomplish the agency mission.

The memorandum also redesignates the Interagency Advisory Group of Federal Personnel Directors as the Human Resources Management Council. It is chaired by the Director of OPM and includes the senior human resources management official from each executive department or agency. The memorandum directs that this Council will continue to:

Provide a forum for communicating and evaluating governmentwide human resources management policies and sharing best practices;

Promote collaboration across agency lines and with OPM to foster policies and actions to achieve a diverse federal work force that is skilled, flexible, and focused on results and service to the nation;

³⁵ *The Budget of the United States for Fiscal Year 2001*, Government Printing Office, Washington, DC, 2000, page 298.

³⁶ Statement of Deidre Lee, Senate hearing 106-682, May 18, 2000, page 87.

³⁷ *Memorandum to the Heads of Executive Departments and Agencies, Subject: Actions to Further Improve the Management of Federal Human Resources*, The White House, June 9, 2000.

Collaborate with OPM to identify and address emerging human resources management issues.

Finally, it directs that beginning on October 1, 2000, and annually thereafter, agencies shall include human resources management objectives and means to accomplish these objectives in their annual performance plans.

Most recently, OPM issued its five year strategic plan, *Federal Human Resources Management for the 21st Century*, on September 30, 2000. The plan outlines how OPM “will shape human resources management to ensure federal agencies are able to recruit, manage, and keep the best people to do the work of our government.”³⁸ The Subcommittee anticipates that some of these recommendations will be forwarded to Congress for consideration next year.

Testimony

Mr. Walker noted that while Congress passed several pieces of legislation in the 1990s to improve federal financial management, information management, procurement reform, and performance measurement, no consensus has emerged on the fundamental structural or policy changes that are needed to address human capital. He stressed that “it is important that we not wait for legislation,”³⁹ and that Congress and the executive branch must do all they can to modernize human capital practices within the context of current law, while working together on the legislative reforms that will be needed. Mr. Walker stated that a human capital framework should have five elements: strategic planning; organizational alignment; leadership; talent; and performance culture.

Ms. Lachance described the administration’s efforts to reform human capital. As mentioned above, the 2001 budget submission included the Priority Management Objective, “*align federal human resources to support agency goals.*” Under this initiative, OPM is developing a workforce planning model that agencies will be able to tailor to their particular needs. The project was initiated in late 1998, after analysis showed that large numbers of employees across all agencies would be eligible for retirement in the coming decade. Director Lachance said that, “everyone in leadership positions across the executive branch understands that these numbers are real, that they are catching up to us, and that they have to act.”⁴⁰

Ms. Lachance stated:

³⁸ Federal Human Resources Management for the 21st Century, Office of Personnel Management, Strategic Plan FY 2000 - FY 2005, page 5.

³⁹ Oral testimony of David Walker, Senate hearing 106-547, March 9, 2000, page 5.

⁴⁰ Oral testimony of Janice Lachance, Senate hearing 106-547, March 9, 2000, page 15.

This year we will design a workforce planning model that will enable managers to analyze the current workforce and, using a variety of “what if” scenarios, determine what kind of workforce will be needed in the future. The model will use both governmentwide and agency-specific workforce data to help agencies identify occupational needs, skills gaps, recruiting sources, inconsistencies in diversity, and succession issues. Agencies will also be able to rely on the data to anticipate new trends in attrition and retirement and predict both shortages and growth in key occupations. Workforce modeling will help close the gap between the workforce they have today and the one they will need in the future.⁴¹

OPM plans to have a prototype of this framework available for a pilot test by the Social Security Administration. Once it has been tested and revised, OPM hopes to make it available governmentwide by late 2001.

Ms. Lachance also addressed the status of human resources professionals in the government. OPM has “done a significant study on the state of the human resources profession in the federal government and we have found there are skills lacking, that the human resources profession has suffered from being considered a support function in an agency. We are hoping to elevate the entire profession, advise agencies on the kind of training and skills that the human resources professionals need and urge every agency to have their human resources professionals at the table when they are developing their strategic plans and goals for the next several years.”⁴²

“The Effectiveness of Federal Employee Incentive Programs,” May 2, 2000

Background

On May 2, 2000, the Subcommittee held a fourth oversight hearing entitled, “The Effectiveness of Federal Employee Incentive Programs.” The Subcommittee examined whether current incentives – including recruitment bonuses, flexible office hours, telecommuting, onsite daycare, vacation time and performance pay – are adequate to bring quality people into government service and retain the best and the brightest. Many people that seek employment in the federal government are motivated by the desire to serve their country, but this spirit cannot be taken for granted when the employment opportunities in the private sector are more attractive than ever due to a thriving economy. The federal government must act to counter this trend by offering the incentives that will make it a more attractive place to work.

According to GAO, the following elements relating to incentives should be a part of

⁴¹ Statement of Janice Lachance, Senate hearing 106-547, March 9, 2000, pages 57-58.

⁴² Oral testimony of Janice Lachance, Senate hearing 106-547, March 9, 2000, page 11.

federal agencies' human capital framework:⁴³

A compensation system that helps acquire, motivate, retain and reward employees.

Workplace flexibilities, services, facilities, and work-life programs to help it compete for talent and enhance employee satisfaction and commitment to the agency.

Managers that enable and motivate performance while ensuring accountability and fairness for all employees.

Incentives should be clearly and meaningfully linked to performance.

The agency should encourage and motivate employees to contribute to continuous learning and improvement.

Poor performance must be held accountable, and agency leaders should support managers and supervisors who give employees frank and constructive feedback.

Unfortunately, two surveys of federal employees conducted during the last several years indicate a significant level of dissatisfaction with current incentive programs. In 1996-1997, OPM's Office of Merit Systems Oversight and Effectiveness conducted a comprehensive study entitled *Special Study on Incentive Awards*, which examined incentive programs at 15 federal departments and agencies. OPM found that the primary weaknesses of awards programs are: (1) lack of employee confidence in awards programs, and (2) uneven participation and funding levels.⁴⁴ According to the survey, less than 40% of the federal workforce believes that awards are given based upon performance or that management selects the most deserving employees.⁴⁵ Much of the employee discontent arises from agencies' heavy reliance on performance awards that are linked to appraisal systems which are considered to be ineffective. The report states:

During interviews, employees often complained that supervisors' varying performance rating styles (e.g., liberal versus conservative) and differing personal philosophies and biases regarding incentive awards were sources of inconsistencies and, thus, unfairness. Employees and supervisors alike expressed

⁴³ *Human Capital, A Self-Assessment Checklist for Agency Leaders*, GAO-OCG-00-14G, September 2000, Version 1, pages 21-23.

⁴⁴ *Special Study on Incentive Awards*, Office of Merit Systems Oversight and Effectiveness, Office of Personnel Management, August 1998, page 1.

⁴⁵ *Id.*, page 17.

the opinion that managers were sometimes forced by headquarters-imposed restrictions and/or “quotas” to rotate award recipients from year to year, regardless of who were the most deserving. Many employees also viewed the lack of awards ceremonies and other publicity in their organizations as confirmation that the fairness and integrity of award decisions had been compromised.⁴⁶

In addition, among the 15 agencies reviewed, the awards recognition rates varied significantly, ranging from zero to about two awards per employee. The report states:

While causes for the wide variation in agency-wide spending for performance awards and special acts could not be firmly established, possible contributing factors to these differences include: inconsistent levels of awards program emphasis and support from department/agency/bureau headquarters; delays in appropriations bills; varying degrees of effort to reinvent and redirect awards programs trends away from historical patterns that heavily favored performance awards; and inadequate controls on/monitoring of awards spending.⁴⁷

On March 31, 2000, the National Partnership for Reinventing Government and OPM issued a report on a survey that they conducted entitled, *1999 Employee Survey - Making Government a Great Place to Work*. According to the survey, federal employees “expressed the greatest dissatisfaction with how employee performance is handled. Two out of three employees believe rewards are based on something other than merit; many cited bias and favoritism.” Employees’ responses on incentive-related questions are shown on the following table.⁴⁸

Questionnaires	favorable	neither	unfavorable
Creativity and innovation are rewarded	29%	25%	46%
Employees are rewarded for working together in teams (for example, performance ratings, cash awards, certificates, public recognition)	36%	18%	46%
Corrective actions taken when employees do not meet performance standards	28%	27%	45%

Testimony

⁴⁶ Id, page 18.

⁴⁷ Id, page 9.

⁴⁸ *1999 Employee Survey: Making Government a Great Place to Work*, National Partnership for Reinventing Government and Office of Personnel Management, Washington, DC, March 31, 2000. Retrieved December 1, 2000, from the World Wide Web: <http://www.employeesurvey.gov/>.

Mr. Henry Romero, the Associate Director of Workforce Compensation and Performance Service at the Office of Personnel Management, described the various incentives that are available to agencies and the flexibilities that agencies have under the law to customize programs to meet their particular needs. Agencies can offer recruitment and retention bonuses, tuition assistance and reimbursement, and family and medical leave, and other benefits. “Federal employees have access to more than 250 federally supported or assisted child-care sites around the country. We are very pleased that recent legislation permits agencies to use appropriated funds to make child care more affordable for their lower-income employees.”⁴⁹

He also stressed the importance of competitive pay. “It is important that the basic salary we pay our employees be competitive with other employees for similar kinds and levels of work. This is a goal that has historically been difficult to achieve. Also, there has been considerable controversy over the years on how to compare the salaries of federal and non-federal employees in a meaningful way.”⁵⁰

With regards to flexible work schedules, he noted that the federal government has been a leader in this area since the late 1970s, and that efforts are being made to expand flexibilities such as telecommuting.

Just as alternative work schedules permit employees and agencies to choose schedules that meet the demands of both the individuals and their organizations, telework programs have extended employee work environments to include locations other than the traditional office setting. Whether at a telecommuting center or a home worksite, this flexibility generally uses technology to enable employees to be productive and agencies to achieve their goals. Of course, the accompanying reductions in traffic and automotive pollution spread the benefit to the general public.⁵¹

The Honorable Roberta Gross, Inspector General of the National Aeronautics and Space Administration (NASA), explained how many prospective employees are discouraged by the government’s slow hiring process. “It is my experience that it just takes too long to hire staff. We have lost leading candidates in both the audit and computer crimes arena to the private sector competitors because companies can hire top-performing candidates faster than we can.” She said that hiring someone in three months would be considered fast. “That is ridiculous. This is a fast

⁴⁹ Oral testimony of Henry Romero, May 2, 2000, transcript, pages 26-27.

⁵⁰ *Id.*, page 21.

⁵¹ Statement of Henry Romero, May 2, 2000, pages 8-9.

moving market. People don't have to wait around for the federal government."⁵²

Inspector General Gross also noted federal human resources professionals have been focused "on running reductions in force, early-out retirements, and buyout plans."⁵³ There has been little new hiring. As a result, their recruiting networks have atrophied and they have not been competing for talent in the current tight labor market. When Senator Voinovich asked what changes she would recommend to make federal service more attractive, she said granting greater flexibility to managers should be central to any reform efforts, "every kind of specific reform ... would have flexibility at its roots."⁵⁴ She also said that a larger budget would be necessary to exercise any new flexibilities.

Ms. Colleen M. Kelley, the National President of the National Treasury Employees Union, offered the union perspective on how to best attract, retain and motivate federal employees. The most important incentives are good pay, retirement and health benefits, but they "have each faced setbacks in recent years that have limited their competitiveness with the private sector."⁵⁵ She argued that the Federal Employees Pay Comparability Act of 1990 (FEPCA), which was meant to close the gap between public and private sector pay for similar work, has not been followed, and that "fully implementing FEPCA would do more to address recruitment and retention in the federal government than all of the remaining incentive programs in place today combined."⁵⁶ Ms. Kelley observed that budget constraints often prevent the use of recruitment and retention bonuses. "Agencies simply do not have the resources to adequately fund these important incentives."⁵⁷

She also asked that federal agencies be permanently given the authority to use their appropriated funds to subsidize child-care expenses for their lower paid employees. "For working families with children between the ages of three and five, child care is their second or third largest household expense. Private industry has found that making affordable child care available to its employees helps make the inevitable choice between family and work a little less stressful."⁵⁸

⁵² Oral testimony of Roberta Gross, May 2, 2000, transcript, page 15.

⁵³ Id, page 17.

⁵⁴ Id, page 42.

⁵⁵ Oral testimony of Colleen Kelley, May 2, 2000, transcript, page 30.

⁵⁶ Id, page 31.

⁵⁷ Id, page 32.

⁵⁸ Id., page 33.

Mr. Michael Brostek, an Associate Director of Federal Management and Workforce Issues at GAO, had three main points.

First, federal agencies have broad authority to design and implement a variety of incentive programs, and this is very useful because no one incentive program is optimal in all circumstances. Second, over the last five years, agencies have used this flexibility to decrease their emphasis on awards that are tied directly to employees' performance appraisals and to increase their emphasis on alternative forms of compensation, such as special act, service, or gainsharing awards. And finally, while agencies have been making use of the range of incentives available to them and have been altering the types of awards they give, many agencies do not assess whether their award programs are effective in motivating employees.⁵⁹

Mr. Brostek also noted that there has been a decrease in the use of performance awards tied to performance appraisals over the last few years, and this may be attributable to "the common perception that employees' performance appraisals often do not accurately reflect differences in employees' real performance."⁶⁰

"Has Government Been 'Reinvented'?", May 4, 2000

Background

The Subcommittee held its fifth oversight hearing on the National Partnership for Reinventing Government, entitled, "Has Government Been 'Reinvented'?", on May 4, 2000. The National Partnership for Reinventing Government (NPR) was formerly known as the National Performance Review. It is part of the Office of Vice President Gore, and is the Administration's management reform effort. NPR was initiated on March 3, 1993, and its mission statement reads, "In time for the 21st century, reinvent government to work better, cost less, and get results Americans care about." Since Senator Voinovich is interested in ongoing management reforms, he thought it appropriate for the Subcommittee to examine the administration's major management reform initiative to determine what it had accomplished.

Testimony

The Subcommittee chose a panel of witnesses composed of government officials and

⁵⁹ Oral testimony of Michael Brostek, May 2, 2000, transcript, pages 37-38.

⁶⁰ Id, page 39.

auditors, scholars and representatives from think-tanks.⁶¹ There was agreement among the panelists that NPR has not addressed many of the most pressing, chronic management challenges facing the government. Dr. Donald Kettl, a Professor of Political Science and Public Affairs at the LaFollette Institute of Public Affairs, University of Wisconsin-Madison, said that, “problem areas like the GAO high-risk list and OMB’s own Priority Management Objective list have not been addressed ... in many ways these problems have gotten worse and not better. This is largely a product of the fact that the reinventing government effort has not been engaged in attacking these issues head-on.”⁶²

The best example is the GAO high-risk list which has grown from 14 areas in 1990 to 26 today, and 10 of the original 14 have been on the list for a decade. Three more areas were added to the list in 1991 and 1992, and 15 areas have been added during the Clinton Administration. Only six areas have been removed.⁶³ In addition, GAO has identified 41 program areas in 12 mission areas in which there is substantial overlap, fragmentation and duplication of government activity.⁶⁴ Mr. Ronald C. Moe, a Project Coordinator at the Government and Finance Division of the Congressional Research Service, stated that, “A case can be made that the core [management] competencies of government have eroded under NPR and are likely to continue to erode.”⁶⁵

Most of NPR’s efforts have been focused only on process and not substance. In December 1994, the second phase of NPR was launched by Vice President Gore. Under its expanded mandate, NPR was to reevaluate the role of the federal government in relation to state and local governments and the private sector. However, there was little follow-up by NPR, and no major programs areas were targeted for reorganization or elimination. Mr. Paul Light, Vice President and Director of the Governmental Studies Program at The Brookings Institution, said, “There has been a lack of attention to structural reform ... I think it is time for a very detailed look at the structure of the federal government, and that has to be done through legislation.”⁶⁶ Mr. Scott Hodge, the Director of Tax and Budget Policy at Citizens for a Sound Economy, said, “Redundancy and duplication abound, and many government programs have simply become immortalized in the federal budget.” He continues to argue that NPR “has tinkered with the process of government rather than go in and analyze and determine the substance of what

⁶¹ Mr. Morley Winograd, Senior Advisor to Vice President Gore and Director of the National Partnership for Reinventing Government, was invited to be the lead-off witness, but the administration declined to allow him to testify on the grounds that he is not in a Senate-confirmed appointment.

⁶² Oral testimony of Don Kettl, Senate hearing 106-722, May 4, 2000, page 11.

⁶³ *High-Risk Series, An Update*, GAO-HR-1, January 1999, pages 170 -172.

⁶⁴ Statement of J. Christopher Mihm, Senate hearing 106-722, May 4, 2000, page 45.

⁶⁵ Oral testimony of Ronald Moe, Senate hearing 106-722, May 4, 2000, page 14.

⁶⁶ Oral testimony of Paul Light, Senate hearing 106-722, May 4, 2000, page 10.

government should and should not do.”⁶⁷

NPR claims credit for savings and reductions in the federal workforce which cannot be attributed to its actions. NPR claims approximately \$137 billion in savings from its efforts to reinvent the federal government. GAO reviewed recommendations representing 22 percent of the total amount of NPR's savings claims and over two-thirds of the \$44.3 billion in savings that NPR claimed had been achieved from its recommendations to individual federal agencies. Mr. J. Christopher Mihm, an Associate Director of Federal Management and Workforce Issues at the U.S. General Accounting Office, stated, “that NPR claimed savings from agency-specific recommendations ... could not be fully attributed to its efforts.”⁶⁸

For example, NPR recommended that the Department of Energy “continue” the reduction of funding for nuclear weapons production, research, testing programs, and infrastructure. Mr. Mihm described how the Office of Management and Budget attributed the \$6.9 billion savings associated with the downsizing of the nuclear weapons complex to NPR. OMB failed to explain that the end of the Cold War and the Comprehensive Nuclear Test Ban Treaty would have changed the organization of the weapons labs regardless of whether NPR had made the recommendation. Therefore, attributing this \$6.9 billion in savings from reductions in the nuclear weapons complex to NPR is not supported by the facts. GAO found similar examples with the Department of Agriculture and NASA.

Furthermore, Mr. Mihm said, “The savings estimates could not be replicated, and there was no way to substantiate the savings that had been claimed. NPR relied on OMB to estimate the savings from its recommendations, and OMB generally did not attempt to distinguish NPR’s contributions from other initiatives or factors that influenced budget decisions.”⁶⁹ Although GAO examined only a portion of the total savings claimed by NPR, these points raise serious questions as to the validity of claimed savings overall.

NPR also takes credit for the downsizing of 384,000 positions overall during the last seven years, or 17 percent of the civilian non-postal service workforce. NPR assertions that its recommendations allowed for such downsizing are exaggerated. It is true that NPR advocated and pushed a reduction in the size of the civil service, but other factors affected government downsizing far more than NPR initiatives.

Over 290,000 of the personnel cuts – 64 percent of the total – were employees of the Departments of Defense and Energy, driven by large reductions in the defense budget and four rounds of base closings. Other significant personnel cuts that had no connection with NPR

⁶⁷ Oral testimony of Scott Hodge, Senate hearing 106-722, May 4, 2000, pages 14-15.

⁶⁸ Oral testimony of J. Christopher Mihm, Senate hearing 106-722, May 4, 2000, page 7.

⁶⁹ *Id.*

included 15,000 employees of the Federal Deposit Insurance Corporation, which was being downsized after it had addressed the savings and loan crisis. An additional 8,500 employees were cut from the Panama Canal Commission, which has been reduced to just seven employees now that the canal has been turned over to Panamanian authority. Therefore, at least 70 percent of the personnel cuts for which NPR takes credit are attributable to other factors.

There was agreement among the panelists that the government downsizing of the 1990s was conducted haphazardly with little or no strategic planning, and that both Congress and the executive branch need to devote high-level attention to the human capital requirements of the government. For the last several years, GAO and others have reported that because agencies did not strategically assess their human resources requirements before downsizing was initiated, the federal government faces a skills and experience imbalance in its workforce. Agencies not only lost institutional knowledge and skills that are not readily replaceable, but they are not sure of exactly what they lost, and have not made plans to compensate. Mr. Mihm said, “It is by no means clear that the current workforce is adequately balanced and positioned to achieve results and agency missions. This is due in part to an apparent lack of adequate strategic and workforce planning across the government.”⁷⁰

Dr. Kettl said that, “The primary goal [of NPR] is to try to reduce the workforce, to get people out the door,”⁷¹ and it paid little attention to strategic planning to ensure that agencies had the right balance of skills to carry out their missions. He pointed out that this workforce imbalance is exacerbated by the impending baby boomer retirements. “If you look at the projections of the number of federal employees who are eligible to retire, somewhere between a third and a half of all federal employees now in the workforce will not be there at the end of the next president’s first term.”⁷²

Mr. Light added that, “the downsizing process was done through an entirely random process. We have reduced the total size of government through attrition and voluntary buyouts ... it has been haphazard, random, and there is no question that in some agencies we have hollowed out institutional memory, and we are on the cusp of a significant human capital crisis.”⁷³

The panelists also agreed that while NPR has been avidly advocating reducing the size of the bureaucracy, it has not seemed as concerned with addressing this looming crisis. “We have got to tackle the current condition of the public service. I think that is a real miss in reinventing government. We just have not done anything to deal with the human service crisis in the federal

⁷⁰ Id.

⁷¹ Oral testimony of Don Kettl, Senate hearing 106-722, May 4, 2000, page 11.

⁷² Id.

⁷³ Oral testimony of Paul Light, Senate hearing 106-722, May 4, 2000, page 19.

government,”⁷⁴ according to Mr. Light. A similar sentiment was echoed throughout the hearing by Dr. Kettl, “We have no alternative but to confront the fundamental question of what the federal workforce ought to look like, what kind of skills it ought to have to do the job that we know must be done, and my concern is that the first seven years of reinventing government has not really addressed that question,”⁷⁵ and, “the problem is that we have increasingly created a gulf between the people who are in the government and the skills needed to run that government effectively.”⁷⁶

Furthermore, despite all of this downsizing, the federal government remains massive, and no noticeable streamlining of government services or functions is apparent. Mr. Light said, “It is only by the most narrow definition of workforce [full-time equivalents] that a president could say the era of big government is over.”⁷⁷ Rather, as Senator Voinovich has publicly stated and has been documented by Mr. Light, there is now a “shadow of government” of almost 13 million contractors, grantees, and state and local government employees complying with federal mandates and working side by side with federal employees.⁷⁸

Several of the witnesses discussed NPR’s positive aspects and achievements. NPR stressed that many of the problems of the government were, as Mr. Light said, the result of “good people trapped in bad systems.”⁷⁹ Consistent with that approach, it has tried to improve the image of the civil service, which has been tarnished in recent years. Mr. Light stated that, “I like the general approach [of NPR] that we have decent, hard-working people in government and that we need to figure out ways to give them the tools to do their work.”⁸⁰

NPR has worked to cut red tape and remove burdensome and seemingly outdated regulations which hamper government performance. It directed that government agencies focus on customer service, pushed the use of innovative information technology in the workplace, and assisted with the implementation of procurement reforms passed by Congress. Some NPR recommendations undoubtedly produced savings (although the amount of savings is unclear and certainly exaggerated). Finally, regardless of the outcome of the next presidential election, management improvement initiatives will have to continue, just as NPR itself was the

⁷⁴ Id, page 10.

⁷⁵ Oral testimony of Don Kettl, Senate hearing 106-722, May 4, 2000, page 11.

⁷⁶ Id, page 19.

⁷⁷ Oral testimony of Paul Light, Senate hearing 106-722, May 4, 2000, page 18.

⁷⁸ Paul Light, *The True Size of Government*, Brookings Institution Press, Washington, DC, 1999, page 1.

⁷⁹ Oral testimony of Paul Light, Senate hearing 106-722, May 4, 2000, page 9.

⁸⁰ Id.

continuation of previous reform efforts. Dr. Kettl said, “This is an effort that cannot, simply will not end at the end of this administration ... whoever it is who is [the next] president will have no alternative but to reinvent reinvention.”⁸¹

“Training Federal Employees to be Their Best,” May 18, 2000

Background

On May 18, 2000, the Subcommittee held its sixth human capital oversight hearing entitled, “Training Federal Employees to be Their Best.” The purpose of the hearing was to examine the government’s commitment to train and educate its employees to maintain their skills, enhance their performance and ensure they are able to keep pace with the ever-changing needs of the American public. Training is a vital component in making a world-class civil service.

⁸¹ Oral testimony of Don Kettl, Senate hearing 106-722, May 4, 2000, page 12.

The GAO report, *Human Capital, A Self-Assessment Checklist for Agency Leaders*, makes several recommendations related to training:⁸²

Demonstrate an explicit link between the agency's training offerings, opportunities and curricula and the core competencies that are needed to achieve the agency's shared vision and mission.

Have a formal training and professional development strategy or a discussion of training and development in agencywide strategic or human capital planning documents.

Maintain a skills inventory identifying current and future skills and education needs and gaps, including information on skills by demographic cohort.

Have individual development and training plans for employees at all levels.

Encourage and motivate employees to contribute to continuous learning and improvement.

Receive testimonial evidence from employees that training and professional development are encouraged and that available training is relevant and rewarded.

Compare the percentage of its operating budget spent on training with comparable private industry benchmarks.

Unfortunately, anecdotal evidence and various studies of agencies and surveys of employees indicate that the government invests too little in education and career development. According to the 1999 Employee Survey, 30 percent of respondents said that employees are not receiving the training they need to perform their jobs, and 35 percent of respondents said that employees are not receiving guidance in providing high-quality customer service. The entire breakdown is as follows:⁸³

⁸² *Human Capital, A Self-Assessment Checklist for Agency Leaders*, GAO-OCG-00-14G, Version 1, September 2000, pages 15, 20, 20, 20, 20, 20 and 23, respectively.

⁸³ *1999 Employee Survey: Making Government a Great Place to Work*, National Partnership for Reinventing Government and Office of Personnel Management, Washington, DC, March 31, 2000. Retrieved December 1, 2000, from the World Wide Web: <http://www.employeesurvey.gov/>.

Questions	Agree	Neither	Disagree
Employees receive the training they need to perform their jobs	53%	17%	30%
Employees receive training and guidance in providing high-quality customer service	42%	23%	35%

According to a July 1995 Merit Systems Protection Board report, *Leadership for Change*, 83 percent of human resources professionals responded that a fixed percent of their organization's budget should be set aside for employee development, and that training accounts should be equal to three to five percent of payroll.⁸⁴

In a June 1998 report, *Federal Supervisors and Strategic Human Resources Management*, the Merit Systems Protection Board concluded that supervisors often do not tie training needs and development plans to long range organizational performance goals.

Training decisions are often a matter of employees nominating themselves for training they would like to attend, and supervisors approving these requests with little or no regard for what kind of development is actually needed for each employee, and how it will ultimately affect the overall capability of the organization. Thus, the short term goal of getting employees into training courses takes precedence over the long term goal of assessing training needs and developing a training strategy to integrate those training needs with the organization's long range goals and mission.⁸⁵

The Subcommittee planned to obtain the training budgets and activities of all federal agencies for analysis, only to discover that neither OMB nor OPM collect such information. OPM ceased collecting this information after fiscal year 1992 as a paperwork reduction measure. Because there is no readily available source for this information, the Subcommittee is conducting a survey of selected federal agencies to learn of their training budgets and activities. A discussion of the Subcommittee's findings is included in section II(C) of this report.

Testimony

The Honorable John U. Sepulveda, the Deputy Director of the Office of Personnel Management, discussed OPM's two roles with respect to training the federal workforce. One is

⁸⁴ *Leadership for Change: Human Resource Development in the Federal Government*, U.S. Merit Systems Protection Board, July 1995, page 14.

⁸⁵ *Federal Supervisors and Strategic Human Resources Management*, U.S. Merit Systems Protection Board, June 1998, page 3.

OPM's responsibility to provide executive and managerial development for the Senior Executive Service (SES). "When OPM privatized its training operations back in 1995, we purposely held on to executive development because we concluded that it was important for the federal government to be responsible for providing training to our executive leadership to provide that public perspective and the skills they need."⁸⁶ He also said that OPM is committed to providing continuing development for its executives throughout their careers. In addition, OPM approves and monitors the efforts of federal agencies to establish their own formal candidate development programs. Sixteen formal plans are currently in place.

OPM's second responsibility is to set governmentwide policies that federal agencies use to administer their own training programs. In January 1999, the president issued Executive Order 13111, the purpose of which is to provide direction to government leaders on using technology to improve training opportunities for federal employees. "The order highlights the need for every agency's strategic plan to identify training and education as a means of achieving agency corporate goals. It further calls on agencies to include a set of goals and aligned performance measures to provide effective training opportunities as part of their annual budget submission."⁸⁷

In accordance with Executive Order 13111, OPM established the Individual Learning Account (ILA) Initiative. The program "essentially permits managers to put into an account money or hours or both that will allow employees to draw down from that account to get the kind of training, whether it is provided within the government or outside of the government, to get the kind of training they need to be effective."⁸⁸ Thousands of employees from the following 13 agencies are participating in the initiative: Departments of Commerce, Defense, Health and Human Services, Housing and Urban Development, Interior, Labor, Transportation, and Treasury; Environmental Protection Agency, General Services Administration, Occupational Safety and Health Review Commission, Office of Personnel Management, and Social Security Administration. Employee participation at agencies varies, and includes groups such as the welfare to work population of the information technology workforce. The pilot project ran through September 15, 2000, and OPM is assessing the program to determine whether or not to implement it governmentwide.

In addition, OPM is currently considering a proposal to establish an exchange program for members of the Senior Executive Service, who would work in leading private sector organizations. Expectations are that they would bring back valuable contacts, experience and knowledge of private sector best practices that would benefit federal agencies.

The Honorable Diane M. Disney, Deputy Assistant Secretary of Defense for Civilian

⁸⁶ Oral testimony of John Sepulveda, Senate hearing 106-682, May 18, 2000, page 6.

⁸⁷ Statement of John Sepulveda, Senate hearing 106-682, May 18, 2000, page 28.

⁸⁸ Oral testimony of John Sepulveda, Senate hearing 106-682, May 18, 2000, page 5.

Personnel Policy, described how the Department of Defense (DOD) is changing its approach to developing its civilian workforce. She noted that, “civilians are generally expected to bring the necessary education and training with them. As a result, the Department has long invested more in the military, whose future it controls, than in the civilians, who are part of the federal-wide system. However, DOD is transforming its approach to civilian education and training to focus on the idea of investment rather than cost.”⁸⁹ For example, in 1997, DOD created the Defense Leadership and Management Program (DLAMP) to improve its internal management accession. The program is the “first systematic departmentwide program to prepare civilians for key leadership positions. It requires rotational assignments, professional military education at the senior level, and at least 10 advanced level graduate courses in subjects important for defense leaders.”⁹⁰ The Defense Department intends to expand the DLAMP program so that employees in the GS-9 to 12 level can participate. In addition, she mentioned how the military departments offer a wide range of training opportunities.

Mr. Michael Brostek, an Associate Director of Federal Management and Workforce Issues at GAO, stated that training and retraining employees is critical to achieving meaningful improvements in agencies’ performance, and that the government needs to make greater investments in its employees. He then described three steps that high performing organizations consistently take when designing and implementing training and development programs. First, they identify the knowledge, skills, abilities, and behaviors that employees need to support the mission and goals of an organization, and they determine to what extent their employees possess those competencies. Second, they design training programs to meet any identified gaps in competencies. Third, they evaluate the training programs to ensure that they are actually increasing employees’ competencies and the organization’s performance.

GAO has been examining training activities at the Defense Finance Accounting Service, the Health Care Financing Administration, the Immigration and Naturalization Service, and the Department of State. All of the agencies reported that a lack of staff and resources was affecting their ability to deliver training that they believed was appropriate to develop and maintain the skills needed by their workforce. GAO believes that agencies need to make a business case for adequate training funds to Congress. Agencies have to identify what training is needed and how that training is likely to produce improved performance, both by individuals and the agency. Furthermore, if agencies are unable to obtain what they believe to be adequate resources through the appropriations process, they may need to consider internal reallocation of resources to cover training requirements.

Mr. Bobby L. Harnage, Sr., the National President of American Federation of Government Employees, said that agencies seldom ask for or include union participation when

⁸⁹ Oral testimony of Diane Disney, Senate hearing 106-682, May 18, 2000, page 7.

⁹⁰ Id, page 8.

formulating training activities and budgets. “Training of the federal workforce has traditionally been considered a subject that is off-limit to unions. Any suggestions or proposals involving training have had to be approached on a level of generality that was just about meaningless; anything else was, and is, outside the scope of collective bargaining law ... this is unfortunate because training is a subject on which there ought to be natural alignment between management and labor.”⁹¹ Mr. Harnage noted that much of his information on training comes anecdotally from union member. Although he was unable to provide hard numbers, he believes that, “the trend line for federal spending on training, then, is apparently a downward one, even though it could be expected to be increasing because of the smaller federal workforce and the increased demands put on each worker.”⁹²

AFGE believes that training budgets are often sacrificed for cost-cutting reasons, and that agencies still do not consider employees a resource in which to be invested. “For the federal government, it is still not natural to think in terms of maximizing the most important resource in the organization; it’s more natural still to think, ‘where can we cut the training budget further?’”⁹³ Mr. Harnage believes that the ongoing implementation of the Government Performance and Results Act can raise the profile of employee training requirements. Agencies “should be required to show in their Results Act plans and reports how training ... supported or failed to support the outcomes that the agency promised to Congress and the American people. Just like any other capital investment, workforce investment, of which training is an essential part, should be expressly included, as an integral part, in each agency’s strategic plan,” because “failing to provide the right amount and kind of training is incompatible with managing for results.”⁹⁴

Mr. Thomas J. Mosgaller, the Vice President and Director of Organizational Development of the American Society for Quality, stated that:

The federal government ought to focus on adopting a performance improvement system ... that incorporates training efforts and in which training is tightly focused and purposeful. In which the aims are to make sure that training is actually used on the job and which leads to the achievement of beneficial, measurable results for the agencies receiving the training.⁹⁵

Mr. Mosgaller explained how employees should be trained only when there is a lack of

⁹¹ Statement of Bobby Harnage, Sr., Senate hearing 106-682, May 18, 2000, page 70.

⁹² Id, page 72.

⁹³ Id., page 75.

⁹⁴ Id, page 77.

⁹⁵ Statement of Thomas Mosgaller, Senate hearing 106-682, May 18, 2000, page 80.

skills and knowledge that is causing poor performance. He also described how much training is wasted because it is never used. “The training has to be applied quickly because it is well known and documented that learning that is not used decays very quickly. It is not uncommon to encounter estimates that only about one-fifth of the material presented in training courses is used on the job a month later.”⁹⁶ The result is often irrelevant training and a waste of the organization’s resources. He stated that it is management’s responsibility to design training that will actually be used on the job, and thus create value for the organization.

Ms. Tina Sung, the President and CEO of the American Society for Training and Development, stated that, “workplace learning is becoming the smartest strategic solution to the largest human resources challenge ever facing employers ... for both the private sector and government, attracting, optimizing, and retaining talent will require a continuous investment in people.”⁹⁷ She pointed out that there is a strong link between training and retention, and that many companies have secured lower turnover rates and higher employee satisfaction as a result of employee career development initiatives.

Contrary to common perception, “when we compared our overall data to the federal government, we found that agency offices were competitive across the board with our average firms. Please bear in mind that our sample of federal government agencies is small and the offices that did participate in our Benchmarking Service tended to have well-funded and established training programs.”⁹⁸ Nevertheless, to address perceived shortfalls in training in the federal government, she believes that human capital issues should be aggressively addressed by the next administration. For training programs to be successful, they must be supported at the highest levels. “During the first 100 days of the new administration, each cabinet secretary should convene political appointees and staff in order to develop strategies for identifying skill needs, building worker competencies, and aligning human capital management policies with performance management principles.”⁹⁹ In addition, agencies should collect and widely disseminate data on their training investments, practices, and outcomes.

⁹⁶ Id, page 81.

⁹⁷ Statement of Tina Sung, Senate hearing 106-682, May 18, 2000, pages 62-63.

⁹⁸ Id, page 65.

⁹⁹ Id, page 68.

C. *Subcommittee Survey of Training Budgets and Activities*

The Subcommittee has conducted an examination of the level of investment in employee training by federal agencies as part of its human capital oversight. Senator Voinovich is concerned that in general, federal employees are not receiving the training they need to maintain skills, enhance performance or keep pace with the ever-changing needs of the American public. This impression was buttressed by testimony the Subcommittee received at its May 18, 2000, hearing on employee training, as well as the testimony of Comptroller General David Walker on March 9, 2000, who observed:

In cutting back on the hiring of new staff in order to reduce the number of their employees, agencies also reduced the influx of new people with the new competencies needed to sustain excellence. As you are aware, little data exists on the overall federal expenditures on training, but the anecdotal evidence is that, in trying to save on workforce-related costs, agencies cut back on the training investments needed if their smaller workforces were to make up for institutional losses in skills and experience.¹⁰⁰

Neither the Office of Management and Budget nor the Office of Personnel Management collects agency training budgets and activities. Therefore, Senator Voinovich decided to ask selected agencies for this information directly. Through this survey, which included 18 questions on the agencies' workforce, training requirements, and actual training budgets, the Subcommittee has developed a more in-depth understanding of how training budgets are formulated. As a result of what the Subcommittee has learned in this survey and other activities, it has developed a number of recommendations to improve training, which are included in this report.

The following 12 agencies have received the survey:

- Administration for Children and Families, Department of Health and Human Services;
- Bureau of Consular Affairs, Department of State;
- Defense Contract Audit Agency, Department of Defense;
- Defense Finance and Accounting Service, Department of Defense;
- Employment and Training Administration, Department of Labor;
- Food Safety and Inspection Service, Department of Agriculture;
- Health Care Financing Administration, Department of Health and Human Services;
- Immigration and Naturalization Service, Department of Justice;
- Occupational Safety and Health Administration, Department of Labor;
- Office of Personnel Management;
- U.S. Customs Service, Department of the Treasury; and
- U.S. Mint, Department of the Treasury.

¹⁰⁰ Statement of David Walker, Senate hearing record 106-547, March 9, 2000, page 31.

The staff of the Subcommittee has met with officials from all 12 agencies. The meetings allowed the Subcommittee to explain both the purpose of the inquiry, and collect valuable information from the agencies. Agency officials shared several observations that although not applicable to the whole executive branch, are nevertheless illuminating. As of this report, the Subcommittee had received official responses from ten of the agencies. Based upon these meetings and the review of the agency submissions, the Subcommittee has made the following observations:

- Eleven of the agencies surveyed do not have “training” budgets. Only one agency has a dedicated employee training budget. The other agencies disperse training funds throughout various other accounts, such as: agency operations and maintenance; compensation, travel, and purchased services; labor, travel, tuition and base operations; salaries and expenses; program management accounts; and federal administration budgets. In addition, most agencies have decentralized training activities. Several agencies are centralizing their training activities to help identify training requirements.
- Because of this decentralized dispersal, most of the agencies indicated that it is difficult for them to determine the exact size of their training budgets. It takes a great deal of effort for an agency to pull this information together from the different parts of the budget in order to present a complete picture of training activities. Several of the agencies were unable to provide information on their training budgets from previous years because their record keeping is poor or non-existent.
- Nine agencies reported the amount of their payroll budget that was spent on employee training from fiscal year 1997 through fiscal year 2000. The overall average was 1.99 percent. One agency devoted 4.75 percent, while another devoted just .58 percent of its payroll to employee training. However, as noted above, many of the agencies noted that these figures might not represent the exact amount spent on employee training. According to the American Society for Training and Development, private organizations that are recognized for their excellence in employee training spend on average 3.6 percent of payroll on training. The average private organization spends two percent on training, similar to what the surveyed agencies spend.
- Eight agencies said that their training budgets were adequate. Only two agencies stated that their training budgets were clearly inadequate for their current mission.
- Six of the agencies said that they could make effective use of additional training resources. Four of the agencies said that they could not make effective use of additional training funds at this time.
- Only one of these agencies expressed confidence that additional training resources would

be made available if they were requested from their department.

- When agencies undergo budget cuts, training is often hit hard. Other costs funded out of the same accounts, such as administration, payroll, and physical plant are fixed and cannot be cut.
- Most agencies said that a single line-item for training would be a double-edged sword. While it would raise the profile of training within the budget, it would leave it more vulnerable to reprogramming.
- All of the surveyed agencies said that biennial budgeting and appropriations would greatly assist the agency in formulating its training activities and policies in both the short and the long-term. While agency budget requests are sent to Congress eight months before the start of the fiscal year, the appropriations bills are usually signed into law weeks and some times only days before the start of the fiscal year (and of course sometimes after the start of the fiscal year). It can take weeks for an agency to sift through its budget, determine how much it was actually appropriated for training, and then begin to implement its training plan. Furthermore, budget fluctuations from year to year make it difficult to establish continuity in training activities and develop long-term training plans.
- Several agencies said they were incorporating distance learning into their training activities so as to lessen the reliance on and use of classroom training.
- Some agencies found that they need better management succession programs to develop future leaders.
- The agencies differ in the number of political appointees and the training those appointees receive. Two of the agencies have no appointees. Two of the agencies have a single appointee who receives no formal training or orientation. One agency with one appointee provides media training, sexual harassment prevention training, and attendance at a leadership conference. The appointees of another agency receive management training from OPM and briefings on the administration's domestic policy and coordination between cabinet agencies and the White House. Another agency's training consists of briefings on ethics, civil rights, and risk communications. (This agency also noted that its appointees are required by law to have expertise in their appointed area.) Another agency with three political appointees provides training in ethics, information security, and management. Finally, another two agencies provide their appointees with ethics training and distribute handbooks designed specifically for political appointees entitled, *Surviving the Bureaucratic Maze*.¹⁰¹

¹⁰¹ *Surviving the Bureaucratic Maze*, prepared by the Office of the Assistant Secretary for Administration and Management, the Office of the Chief Financial Officer, and the Office of the Solicitor, Department of Labor.

III. *LEGISLATIVE ACTIVITIES*

During the 106th Congress, Senator Voinovich sponsored or cosponsored several pieces of legislation to improve human capital management. Senator Voinovich succeeded in including language in the Presidential Transition Act Amendments, introduced by Senator Thompson, to allow key appointees to senior positions in cabinet level agencies and the executive office of the president to receive training in human capital and results-oriented management. According to the Committee report:

A crisis currently confronting the federal government is the recruitment, management and retention of quality personnel. Comptroller General David Walker, who testified before the Committee regarding current personnel management practices of the federal government, encouraged the executive branch to “take steps to align our human capital management policies and practices with modern performance management principles.” As the Committee agrees strongly that effective human capital management is critically important, S. 2705 authorizes executive orientation to include careful analysis of human capital management issues.¹⁰²

This legislation was passed by both the House and the Senate and became Public Law 106-293 on October 12, 2000.

The other significant provisions sponsored by Senator Voinovich were attached to the Department of Defense authorization bill for fiscal year 2001. On June 6, 2000, Senator Voinovich and Senator DeWine introduced S. 2674, the “Department of Defense Civilian Workforce Realignment Act of 2000.” The purpose of the bill was to give the Department of Defense a head start in addressing their future workforce needs to meet the demands of the post-Cold War environment. The bill would have provided the Defense Department with expanded authority to offer voluntary separation incentive payments and voluntary early retirements for workforce shaping actions, such as reducing high-grade, managerial, or supervisory positions and correcting skill imbalances, without linking the use to requirements for eliminating positions or involuntary separations. These authorities would give the Department of Defense the necessary flexibility to manage its civilian workforce and realign its human capital.

This legislation was introduced to address two specific problems facing the Defense Department. First, during the last decade, the Defense Department underwent a massive civilian workforce downsizing program that saw a cut of more than 280,000 positions. Poor workforce planning during the downsizing and changing skills requirements have left the Defense

¹⁰² Presidential Transitions Act of 2000, Report of the Committee on Governmental Affairs, report no. 106-348, July 18, 2000, page 4.

Department seriously understaffed in certain key occupations, such as computer experts and foreign language specialists. In addition, the Defense Department – like other federal departments – was subject to hiring restrictions, thus limiting the number of younger workers coming into the workforce with new skills in emerging technological and professional areas. The resulting skills imbalance in the workforce has the potential to affect the Defense Department's ability to respond effectively and rapidly to threats to our national security.

Second, the Department's workforce is aging. The average Defense employee is 45 years old and more than a third of the Department's workforce is age 51 or older. In the Department of the Air Force, for example, 45 percent of the workforce will be eligible for either regular retirement or early retirement by 2005. Although a mass exodus of all retirement-eligible employees is not anticipated, there is a genuine concern that a significant portion of the civilian workforce, including key leaders and employees with crucial expertise, could decide to retire, leaving the remaining workforce without experienced leadership and absent essential institutional knowledge.

Wright-Patterson Air Force Base in Dayton, Ohio, is the headquarters of the Air Force Materiel Command, and employs over 10,000 civilian federal workers. It is an excellent example of the aging and skills imbalance currently affecting the defense workforce. For example, there is a need to move from the mechanical/aeronautical engineering skills that their senior engineers possess to skills that are more focused on emerging technologies in electrical engineering, such as space operations, lasers, optics, advanced materials and directed energy fields. In terms of demographics, by 2005, 40 percent of the workforce will be age 55 or older. Another 19 percent will be between 50 and 54 years of age. Thirty-three percent will be in their forties. Only six percent will be age 35 to 39, and less than two percent will be under the age of 34. Thus, by 2005, 60 percent of Wright-Patterson's civilian employees will be eligible for either early or regular retirement.

These factors pose a serious challenge to the long-term effectiveness of the civilian component of the Defense Department, and by implication, to the national security of the United States. Military base leaders, and indeed the entire Defense establishment, need to be given the flexibility to hire new employees so they can develop another generation of civilian leaders and employees who will be able to provide critical support to our men and women in uniform. S. 2674 was intended to allow the Defense Department to conduct a smoother transition by not waiting for these retirements before bringing new employees into the Department over the next five years. New employees would have the opportunity to work with and learn from their more experienced colleagues, and invaluable institutional knowledge would be passed along. While this amendment would not address all of the human capital needs of the Defense Department, it would be an important first step to help ensure that the Department of Defense recruits and retains a quality civilian workforce.

The modified language of S. 2674 was accepted as Senate Amendment 3485 to the Senate defense authorization bill for fiscal year 2001. Disagreements arose with the House of

Representatives during conference that centered mostly around the direct spending implications of the proposed early retirement authority. Eventually a compromise was reached and a more modest provision was adopted by the Senate-House defense conference, which was completed on October 6, 2000. H.R. 4205, the Floyd D. Spence National Defense Authorization Act for fiscal year 2001, became Public Law 106-398 on October 30, 2000. The authorities in Subtitle F, Voluntary Separation Incentive Pay and Early Retirement Authority, of Title XI, Department of Defense Civilian Personnel, will nevertheless help the Defense Department shape the skill base of its workforce. The subtitle allows the Defense Department to offer voluntary separation incentive pay to 1,000 senior employees in fiscal year 2001. For fiscal years 2002 and 2003, the complete workforce reshaping authorities provided by the original Voinovich-DeWine amendment, including voluntary early retirement authority and voluntary separation incentive pay, would be available for 4,000 employees each year. The use of these authorities, however, is dependent upon congressional authorization in the 107th Congress.

Another element of the original Voinovich-DeWine workforce reshaping amendment that was adopted affects the restrictions on degree training. Section 1121 of H.R. 4205 authorizes the Secretary of Defense to pay tuition for a civilian employee to obtain an academic degree if that degree training occurs at an accredited institution and is part of a planned Department of Defense professional development program. Under current law, agencies must prove that an occupation is in shortage as a result of recruitment or retention problems before degrees can be funded. This standard is flawed. The question is not whether education is required, but rather how it is managed and whether it results in improved performance.

The conference also adopted a provision that was sponsored by Senator Richard Durbin, the Ranking Minority Member of the Subcommittee, and cosponsored by Senator Voinovich. Section 1122 of H.R. 4205 requires the Director of the Office of Personnel Management to, not later than 240 days after enactment of the act, issue regulations to implement the student loan repayment program. In addition, it eliminates the restriction on repayment of student loans to professional, technical, or administrative personnel, and includes federal student loan repayment programs established since enactment of earlier statutory authority. It affects the entire executive branch.

IV. *RECOMMENDATIONS TO REFORM HUMAN CAPITAL MANAGEMENT*

The following recommendations are based upon the hearings, the meetings, the training survey, and the staff work of the Subcommittee. OPM, other federal agencies, and outside interest groups and think-tanks all made recommendations which are included here. Recommendations of the American Federation of Government Employees and the National Treasury Employees Union are highlighted in a separate section. Please note that this list is by no means exhaustive; additional recommendations for reform are desirable and appropriate. Rather than mapping out a single path to reform, it is hoped that this report will spark substantive discussion and then action on human capital management reform, which is just as important as the policy recommendations themselves. The Subcommittee will begin to hold hearings on the

recommendations in early 2001.

A. *Recommendations Which Do Not Require New Legislative Authority*

This section outlines actions that could be taken by the executive branch immediately without new or additional statutory authority. It should be noted that many federal agencies are already taking some or all of these actions. However, the president should ensure that they are being implemented across the entire executive branch.

Workforce Planning

As a result of poor workforce planning during the downsizing of the government in the 1990s, many agencies now face a shortage of critical skills. This problem is exacerbated by the looming retirement wave. The causes and consequences of inadequate planning were described in detail at the Subcommittee's hearings on March 9 and May 4, 2000. To address this challenge, the president should direct all federal departments and agencies to conduct comprehensive workforce planning as part of Results Act strategic planning activities, to determine attrition, hiring, skills requirements for the next decade, and the kind of workforce that will be needed in 15 to 20 years. Under a priority management objective included in the fiscal year 2001 budget submission, OPM is to assist agencies in strategically assessing their human resources. To that end, OPM has been developing a workforce planning model to assist federal managers. The management objective should be modified to make comprehensive workforce planning mandatory across the executive branch.

Reinvent the Human Resources Professional

The government's human resources professionals are on the front lines of the talent war. In implementing their agencies' human resources strategy, they will directly confront the challenges posed by the human capital crisis. Their competence may well determine success or failure.

Unfortunately, the current corps of human resources professionals might not be up to the challenge. As OPM Director Lachance testified before the Subcommittee on March 9, 2000, for too long federal human resources professionals have been considered only as support personnel, and their skills have not been maintained. According to a January 2000 OPM report, *The HR Workforce: Meeting the Challenge of Change*, more than 90 percent of human resources executives responded that there is a gap between the requirements and the actual competencies of current human resources professionals. Over 65 percent of this group said their agencies had some or no formal plan to close the gaps.¹⁰³ Exacerbating the problem, "the number of federal HR professionals has dropped by over 17 percent over the last six years ... As more seasoned

¹⁰³ *The HR Workforce: Meeting the Challenge of Change*, Office of Personnel Management, MSE-99-7, January 2000, page 8.

professionals retired and moved on, they often were not replaced. There was limited opportunity to hire new professionals into the occupation. The net effect is a lack of expertise at a time when HR professionals are being called upon to serve in new and unfamiliar roles as consultant and business partners.”¹⁰⁴ As a result, there are fewer knowledgeable people to analyze and plan for future human resources needs. Mirroring the trend in the general federal workforce, more than one-third of the government’s human resources professionals will be eligible to retire in five years.¹⁰⁵

Agencies must make an immediate, concerted effort to reinvest in and reinvent the federal human resources professional. First, the government must make a concerted effort to hire the next generation of human resources professionals and give them the comprehensive training, possibly in cooperation with private sector organizations recognized for their human resources best practices, that they will need to bring the best people into government. Second, human resources professionals should be integrated with agency strategic and day-to-day business management efforts; in other words, they should be more fully integrated into the hierarchy and leadership of federal agencies. If these actions are not taken, federal agencies may find themselves unable to hire the workforce they need and employ it in the most efficient and effective manner possible.

More Effective Use of Technology to Assist Human Resources Professionals

To shorten hiring times and assist agency managers and human resources professionals, all federal agencies should acquire automated staffing systems. Such systems allow vacancy announcements to be posted on the Internet, greatly reducing the time required to advertise vacancies and increasing the potential applicant pool. Technology also allows human resources employees and managers to identify the best external job candidates more quickly and easily, and to search the applicant pool by very specific job requirements. Several agencies have already begun using information technology to assist in their human resources activities. This should be encouraged and expanded throughout the federal government.

Telecommuting

At a time when the federal workforce is becoming older and more white collar, and information technology is changing the office at a rapid pace, federal agencies should enable as many employees as possible to telecommute or participate in other types of flexible workplace programs. Not only would this make federal service more attractive to many employees, especially parents of young children, it has the potential to reduce traffic congestion and pollution in large metropolitan areas. In January 1996, the President’s Management Council set the goal of having 160,000 federal employees telecommute nationwide by fiscal year 2002. Every effort

¹⁰⁴ Id, page 6.

¹⁰⁵ Id.

should be made to achieve this goal and exceed it, if possible.

B. *Recommendations Which Require New Legislative Authority*

Improve the Hiring System

There is almost universal agreement on the need to streamline and expedite the government's hiring process. As NASA Inspector General Roberta Gross stated on May 2, 2000, before the Subcommittee, the staffing process, particularly for recruiting candidates with superior qualifications and for difficult-to-fill positions, such as information technology specialists, simply takes too long. Agency managers have informed Subcommittee staff that hiring personnel from outside the government usually takes anywhere from three months to a year, and that this excessive length of time clearly places the government at a disadvantage with the private sector. Only 12 percent of federal employees surveyed in 1999 responded that their agency had streamlined the hiring system.¹⁰⁶

Therefore, the Subcommittee recommends an examination of the entire hiring process to identify the obstacles to bringing qualified candidates quickly into federal service. While the Subcommittee has not sought to determine what a complete reform of the hiring process would entail, it does recommend that Congress provide agencies with limited "direct" or "on-the-spot" hiring authority for perennially difficult positions to fill, such as computer specialists and scientists, or for applicants with outstanding academic or professional credentials. Federal agencies would be permitted, within appropriate guidelines and subject to external review by OPM and Congress, to waive competitive procedures for at least the most critical positions. Such hiring latitude would improve the government's chances of landing topnotch candidates.

Institute "Broad-banding" or "Pay-banding"

Pay for the majority of federal employees is linked to the well-known general schedule (GS) with its structured set of grades and steps. Although certain personnel rules exist which provide some relief from the conventional application of the GS system, the system in general is highly structured and inflexible. For years, it has been suggested by organizations such as the National Academy of Public Administration and the National Performance Review that the government adopt a more flexible pay system. Several federal agencies have already done so by adopting a "broad-banding" or "pay-banding" model. The Navy's demonstration project at China Lake and associated facilities was the first and remains the best known of the broad-banding demonstration projects under Title VI of the Civil Service Reform Act.

Since the China Lake project, broad-banding has been adopted by the following agencies:

¹⁰⁶ *1999 Employee Survey: Making Government a Great Place to Work*, National Partnership for Reinventing Government and Office of Personnel Management, Washington, DC, March 31, 2000. Retrieved December 1, 2000, from the World Wide Web: <http://www.employeesurvey.gov/>.

Agricultural Research Service
Central Intelligence Agency
Corporation for National Service
Federal Aviation Administration (FAA)
Federal Courts
Federal Deposit Insurance Corporation
Forest Service

U.S. General Accounting Office (GAO)
National Imagery and Mapping Agency
National Institute of Standards and Technology
Internal Revenue Service (IRS) Senior management
Demonstration projects:
Department of Defense labs
Veterans Administration

The following private sector companies also use broad-banding:

Bank of America
Merrill Lynch
Northwestern Mutual Life Insurance Company
Aetna Life Insurance Company
General Electric

IBM
NCR Corporation
Sears, Roebuck and Company
The Boeing Company
Xerox Corporation

In brief, broad-banding is a pay and work structure that consolidates two or more GS grade levels into fewer, broader pay bands with relatively wide salary ranges. Pay is determined by performance and competency versus longevity. It also involves the consolidation of narrow occupational series into broader occupational groups, such as professional, administrative, technical, clerical, or the specialized agency profession. For example, approximately 75 percent of the workforce of the Food Safety and Inspection Service (FSIS) are food inspectors and consumer safety inspectors. If FSIS adopted a broad-banding system, these occupations could have their own occupational group.

Subcommittee staff has met with officials from GAO, the IRS and FAA to learn more about their broad-banding systems. GAO's system, which was established in June 1989, is the most mature. It adopted broad-banding to reduce its hierarchical structure, staff jobs more effectively, increase assignment flexibility for managers, expand assignment opportunities for qualified staff, and reduce promotional hurdles. The system includes GAO's entire mission workforce (i.e., evaluator-related specialists). Separate performance system pay rates have been established for the following occupational groups: evaluators, attorneys, accountants and auditors, actuaries, computer scientists, economists, and mathematical statisticians.

There are four separate bands for each position: Band I-D (Developmental, equivalent to GS-7s, 9s, and 11s), Band I-F (Full Performance, equivalent to GS-12s), Band II (Senior Level, equivalent to GS-13s and 14s), and Band III (Managerial level, equivalent to GS-15s). GAO's broad-banding system does not include its support staff, which remained under the general schedule, or its Senior Executive Service. The system allows GAO to base rewards on performance rather than simply length of service. GAO has "an annual process in which we assess the performance of each employee, and we consider the contributions they have made to achieving the mission of the agency and decide upon salary increases for those employees based

on that assessment.”¹⁰⁷ It also provides for larger pay increases for top performers than does the general schedule system. GAO believes that this flexible system has been a success and that it has helped the agency attract and retain a highly competent workforce.

The IRS was given the authority to implement broad-banding as part of the IRS Restructuring and Reform Act of 1998. To do so, the agency must follow parameters described by OPM, and must obtain the approval of both OPM and the Treasury Department. The IRS implemented broad-banding for its senior managers in its new business units on October 1, 2000. It includes positions formerly classified at GS-14 and GS-15, which are second-level supervisors or first-level supervisors reporting to an executive. Other bands under consideration include an executive manager band to bridge senior GS-15 and SES, and pay-bands for bargaining unit employees. As with the other major changes currently occurring at the IRS, agency management will work closely with its employees as they reform the compensation system.

FAA is in the process of establishing a broad-banding system for all of the agency’s 45,000 employees. The agency was granted the authority to adopt broad-banding by the Department of Transportation Appropriations Act of 1996. The system consists of 13 broad-bands in place of the 15 grades with steps of the general schedule. However, each of the nine occupational groups listed below only consists of between three and six bands. A position’s base pay is determined by comparison with similar positions in the private sector. Pay raises are based on organizational and individual performance. Some features of the general schedule system, such as locality pay, overtime pay, awards systems, and benefits remain the same. FAA has also vastly simplified its position classification system, and in place of thousands of position descriptions, nine occupational groups have been adopted: student, clerical support, administrative support, technical support, para-professional, professional, technical, engineering, and specialized. The initial broad-band pilot was implemented in July 1998 and the air traffic controllers broad-band was implemented in October 1998, with different segments of FAA’s workforce phasing in gradually thereafter. FAA management has worked closely with its unionized employees throughout the entire process. However, like the IRS, it will take several years to determine whether FAA’s experiment has been successful.

Broad-banding has many potential advantages over the current system. Its proponents argue that it creates a more flexible work environment by eliminating narrow distinctions among jobs, allowing the organization to put employees in different positions, impart new skills, and enhance career development without concern for a position’s grade. It promotes lateral career development and is designed to fit a flattened, less hierarchical, high speed culture. The system is in many ways simpler than the current GS and job classification system, so administrative costs should be reduced.

Managers are given more authority and responsibility to place new hires in bands, set

¹⁰⁷ Oral testimony of Michael Brostek, May 2, 2000, transcript, pages 40-41.

initial pay and determine periodic increases. Broad-banding should also improve managers' abilities to attract and retain top candidates in competitive fields because it allows agencies to hire qualified individuals at a higher pay level. This could be critical to attracting young workers. Furthermore, broad-banding emphasizes promotions primarily on merit and performance, and not on length of service. It is easier under this system to reward high-performing employees, primarily by moving them more rapidly through the band than average performing employees. This reduces, but would not eliminate, the importance of seniority in the civil service, thus creating a compensation system similar to that commonly found in the private sector. Most agencies would need to institute new performance appraisal systems in conjunction with broad-banding.

However, broad-banding is not without controversy, and it has possible adverse consequences. First, it has the potential for increasing the fragmentation that has occurred throughout the federal government. As agencies customize broad-banding models and the number of different pay systems increases, the concept of the federal government as a single employer or company will be a thing of the past. On the other hand, it can be argued that this is already occurring, albeit slowly. This can be seen in the exemptions from Title 5 at the agencies listed above. Further, OPM announced on November 3, 2000, that it was establishing special pay scales for information technology employees. It occurs in the military as well, where, for example, doctors and pilots command higher rates of pay than their colleagues of the same rank and years of service; on October 30, 2000, General Michael Ryan, Chief of Staff of the Air Force, said that in the future the Air Force must base its compensation on capability rather than rank.¹⁰⁸

Second, agencies may offer different salaries for the same occupations, thus violating what has long been one of the pillars of the merit system: equal pay for equal work. This could lead to a bidding war between federal agencies for the same personnel. Indeed, according to officials at the Defense Department, this is already occurring, with the Defense Department rapidly losing its air traffic controllers to the higher salaries offered at FAA. As a direct consequence, the Defense Department might seek special authority from OPM to offer its air traffic controllers higher compensation.

Third, it may be more difficult to control the costs of employee salaries, with the possibility that the majority of employees will gravitate towards the top of the band over time. For example, the salary of air traffic controllers has risen since that agency implemented broad-banding. At GAO, which as noted above has a relatively mature broad-banding system, almost 50 percent of the employees in Band I-F and over 60 percent of the employees in Band III are in the top quartile of their respective pay-band.

To test the feasibility of broad-banding across the government, more agencies with larger numbers of employees should be permitted, and even encouraged, to experiment with it. Under

¹⁰⁸ *Inside the Pentagon*, November 2, 2000, page 5.

current law, agencies can apply for waivers from OPM for special personnel demonstration projects, but the numbers of employees who can be included in a demonstration project is limited to 5,000, and the number of active demonstration projects allowed at any one time is ten.

The Subcommittee recommends some guidelines for implementing broad-banding on a trial basis:

- More agencies with greater numbers of employees should be allowed to experiment with broad-banding systems under expanded demonstration authority.
- The department secretary or agency head should have the discretion to determine whether his or her agency should initiate a broad-banding project. This would allow agencies that are well-managed to experiment, while allowing other agencies, which perhaps have more pressing management concerns, to remain in the current system until they have the capacity to manage the organizational change broad-banding would entail.
- The department secretary or agency head would have the authority to customize the broad-banding system to meet that agency's particular needs. Imposing a one-size-fits-all broad-banding system could produce the same types of inflexibilities experienced in the current system.
- Agencies would have to submit their proposals to OPM for approval. OPM would also retain the authority to set regulations for broad-banding systems which would have to be followed, such as labor relations, prohibition on striking, veteran's preference, whistleblower protection, ethics requirements, restrictions with regard to political activities, prohibition on discrimination, equal employment opportunities, retirement benefits, and health, life, workers' compensation and unemployment insurance, and perhaps others. Therefore, while pay-banding would lead to many different types of compensation systems, universal protections and other elements would remain in place.
- Agency management should seek input from the agency's employees, including unionized employees, in crafting a broad-banding system. The goal is to convey a sense of ownership by the employees for the new model. Such cooperation would contribute to the success of a broad-banding system customized for that agency.
- Finally, before a broad-banding demonstration project could be implemented, the department or agency would have to obtain the approval of both the House Committee on Government Reform and the Senate Committee on Governmental Affairs, and the appropriate authorizing committee in both the Senate and House. This would ensure that there is broad support for the new system from the committees which will be responsible for overseeing it. After a certain period of time, successful demonstration projects would become permanent. This scrutiny by OPM and Congress would help ensure that the likelihood of creating a system that is dysfunctional or perceived to be unfair by any participants is greatly diminished.

Make Federal Service More Attractive to Today's Fluid Workforce

Several surveys of today's workforce, such as the one conducted by Paul Light in his book *The New Public Service*, indicate that younger workers expect to change jobs frequently and that thirty-year careers with a single employer are becoming a thing of the past. The new public service workforce is more focused on challenging work than job security, and will no longer tolerate the slow process of government. Given this, the federal government must make adjustments to compete for its share of today's fluid workforce by making it more attractive to enter agencies mid-career.

Federal agencies should encourage individuals to enter the government as managers at both the Senior Executive Service (SES) and non-SES management level (GS-13 to 15) by offering higher levels of compensation. For example, the IRS already has the authority to offer levels of pay higher than that established for the SES as a way to attract the best mid-career private sector managers. Without this special pay authority, it is clear that the IRS would not be able to match the level of compensation that these individuals command in the private sector.

The Subcommittee recommends that special pay authority be given to all federal agencies on a similar limited and restricted basis. The secretary or agency head would have the authority to appoint individuals and fix their compensation only if they are exceptionally well qualified and filling a position which requires expertise of an extremely high level that is critical to the agency's successful accomplishment of its mission. Under no circumstances could an employee's total annual compensation, including all bonuses, exceed the maximum amount of total annual compensation for the vice president. The terms of such appointments could be limited as well.

Furthermore, people entering mid-career should be granted the benefits associated with mid-career, such as increased vacation time and other time-accrued benefits. For example, individuals entering federal service after 15 years in the private sector would most likely have to surrender a considerable amount of vacation time, as they would start earning annual leave at the rate of four hours per two-week pay period. In other words, agencies currently must ask mid-career professionals to accept a benefit typically offered to the most junior employees. NASA Inspector General Gross explained to the Subcommittee how frustrating this can be for the new, more experienced employees and how it damages her ability to recruit people in mid-career. The flexibility to offer higher annual compensation and leave rates to top performing candidates or for difficult-to-fill positions would greatly enhance the government's recruitment capability.

Establish a Governmentwide Employee Exchange Program

Still under consideration at OPM is a proposal to create "a governmentwide authority for private sector exchanges which will allow Senior Executive Service (SES) members to go into the private sector and get the experiences and some best practices and come back into the federal

government and benefit the agencies that they are working in.”¹⁰⁹ Such a program would provide federal managers with new perspectives and give them exposure to cutting-edge management ideas and practices. OPM is exploring various ways to establish an executive exchange program, including the possibility of developing a legislative proposal. OPM has informed the Subcommittee that if it concludes that legislation is appropriate, it would expect to submit a proposal early in the next Congress. The Subcommittee supports OPM in its efforts to establish a governmentwide exchange program.

Enhance Career Development

OPM has proposed that federal agencies should have the flexibility to pay for employees’ licenses, certificates, and other professional credentials.¹¹⁰ Absent specific statutory authority under current law, agencies may not pay for employees’ licenses, certificates, or other professional credentials, or for the costs of examinations to obtain such credentials. However, to compete for employees in tight labor markets, the government must demonstrate that it values the professional and career development of its employees. The Subcommittee supports this proposal.¹¹¹

Improve Training

Training is a vital component in making a world-class civil service. The Subcommittee recommends the following changes, which are based on the Subcommittee’s May 18, 2000, hearing on training, the training survey, and various meetings, to improve employee training across the federal government.

- Agencies should designate a career senior executive service position responsible for developing, coordinating, and administering training. Tying training responsibilities and budgets to a specific office would increase accountability. While in many instances it might make sense to delegate the authority to prescribe and implement training to agency managers and smaller units within agencies, a central office should oversee and support training agency-wide and should be responsible for maintaining a complete picture of agency training activities.
- Training activities should be explicitly linked to an agency’s performance plans and

¹⁰⁹ Oral testimony of John Sepulveda, Senate hearing 106-682, May 18, 2000, page 6.

¹¹⁰ Letter from the OPM to Chairman Voinovich, August 1, 2000, page 3, on file with the Subcommittee.

¹¹¹ As noted above, this year Senator Voinovich sponsored and cosponsored legislation that was attached to the defense authorization bill and is now law that would provide additional career development options. Section 1121 of H.R. 4205, Public Law 106-398, allows federal agencies to pay for their employees academic degrees, but delinked this from the requirement that such payment only be for position specific requirements. Section 1122 of H.R. 4205, Public Law 106-398, allows federal agencies to assist their employees in repaying their student loans.

strategic goals. Agencies should clearly articulate how their training helps to accomplish the agency's mission.

- Training budgets should be centralized where appropriate and a separate line-item for training budgets should be created so that Congress is able to identify the training budget throughout the budget process.
- Congress should devote greater resources to training activities through the appropriations process and ensure that those funds are not diverted elsewhere (this recommendation described below as well).
- Agencies should be required to maintain detailed records of their training activities. Agencies cannot adequately plan future training activities if they have no reliable records of their past training activities.
- All departments and agencies should work with OPM to institute comprehensive management succession programs so that they can develop their future leaders. Several agencies already have such programs. At the Subcommittee's May 18, 2000, hearing on training, the Assistant Secretary of Defense for Civilian Personnel Policy described the Defense Leadership Management Program, which is designed to prepare future career managers. OPM conducts general executive training for managers, but agency managers require advanced leadership training which is closely tied to their agency's missions and activities. Large departments and agencies could implement their own programs, and smaller agencies could work with larger departments and OPM to develop programs which would meet their specific needs.
- Agencies should continue the Individual Learning Accounts (ILA) Initiative, which OPM established last year. The pilot project ran through September 15, 2000, and the Subcommittee recommends that this program be continued. Doing so requires no new authority.

Improve Employee Accountability

In 1993, the report *Reinventing Human Resources Management* by the National Performance Review (NPR) noted:

It is also important that changes be made in performance systems to reduce the amount of time it takes to deal with poor performers. For example, the length of time that poor performers are given to demonstrate improved performance is often considered excessive. The 30-day notice period that the law requires before removal or certain other adverse actions can be taken is also too long. After action is taken against poor performers, there can be a lengthy review and appeals process. While an employee's right to due process must be protected, there is a need for streamlining the current process.¹¹²

Specifically, the report recommended that the notice of termination be reduced from 30 to 15 days. It also recommended that federal managers be given special training to help them deal with poor performers.

The problem of dealing with poor performers apparently did not improve during the 1990s. A survey conducted jointly by OPM and NPR in 1999 found that over two-thirds of federal employees were dissatisfied with the manner in which poor performers were dealt. Only 28 percent responded that corrective action was taken when employees do not meet performance standards, and "many pleaded strongly for something to be done about this problem."¹¹³ The Subcommittee agrees in general with these observations, and recommends that an outside group, such as the National Academy of Public Administration, be commissioned to conduct a study of the disciplinary and termination process and make unbiased recommendations on how it can be overhauled and streamlined to bring greater accountability to federal employees.

C. *Recommendation for Congressional Action*

Safeguard Incentive and Training Budgets

There is a clear role for congressional appropriations in assuring that adequate funding is available for incentives to recruit and retain a highly skilled and motivated workforce and to properly train that workforce. Too often, award, travel, relocation and training budgets are the first expenditures cut even though they are precisely the budgets needed to maintain a

¹¹² *Reinventing Human Resources Management*, National Performance Review, Washington, DC, September 1993, section 5, page 2.

¹¹³ *1999 Employee Survey: Making Government a Great Place to Work*, National Partnership for Reinventing Government and Office of Personnel Management, Washington, DC, March 31, 2000. Retrieved December 1, 2000, from the World Wide Web: <http://www.employeesurvey.gov/>.

competitive edge in today's labor market. Such incentive and developmental expenses unfortunately become discretionary in the face of static or reduced budgets. Many federal managers have informed the Subcommittee that they are often unable to give employees the allowable retention, recruitment, and performance bonuses, which can be up to 25 percent of an employee's basic pay, because of inadequate budgets. They have also stated that vital training is not undertaken for the same reason. Although Congress should not legislatively earmark incentive funds, congressional appropriators should be actively aware of federal workforce needs when crafting their budgets and provide adequate funding for departments and agencies to attract and retrain skilled workers.

V. *UNION RECOMMENDATIONS*

As mentioned above, Senator Voinovich has reached out to the major federal employee unions during his examination of human capital management in recognition of the important role that they will have to play in reforming of the civil service system. He has met several times with Mr. Bobby L. Harnage, Sr., National President of the American Federation of Government Employees, and Ms. Colleen Kelley, the National President of the National Treasury Employees Union, and before that her predecessor, Mr. Robert Tobias. Mr. Harnage testified three times and Ms. Kelley testified twice during the Subcommittee's six hearings, and they offered several suggestions for improving human capital management. The Subcommittee is including the recommendations of AFGE and NTEU in full in the interest of providing as many suggestions for improving human capital management as possible.

The recommendations of the American Federation of Government Employees and the National Treasury Employees Union follow.

VI. CONCLUSION

The findings of the Subcommittee on Oversight of Government Management leave little doubt that the federal government is in dire need of a unified strategy to rebuild the civil service in light of the demographic and performance challenges that it confronts. The key ingredients in building and maintaining a world-class civil service are comprehensive workforce planning, robust training, the right incentives, and reliable performance measurement. It also requires that executive branch appointees and senior career executives possess an understanding of the importance of human capital to their organizations. However, building a world-class civil service is not an end in and of itself. The ultimate and most important goal is to improve federal government programs and delivery of services to the American people, and this can be accomplished most effectively by making wise investments in the employees who run the programs and know how to make them work.

Congress and the executive branch must work together on a bipartisan basis to accomplish this goal. Identifying and refining the policies and practices that will lead to better workforce management will also demand communication and cooperation among all interested stakeholders. It is hoped that this report, and the findings and recommendations contained therein, will invite an exchange of ideas and begin a legislative process that will dramatically improve the management of human capital and help the new administration better meet the challenges of governing in the 21st century.

APPENDIX A

COMPILATION OF WITNESS LISTS FOR SUBCOMMITTEE HEARINGS ON HUMAN CAPITAL

“Total Quality Management: State Success Stories as a Model for the Federal Government,” July 29, 1999

Mr. Steve Wall, Executive Director, Ohio Office of Quality Services

Ms. Teresa Shotwell-Haddix, Union Quality Coordinator, Ohio Department of Transportation

Mr. J. Christopher Mihm, Associate Director, Federal Management and Workforce Issues, General Government Division, U.S. General Accounting Office

Ms. Deidre A. Lee, Acting Deputy Director for Management, Office of Management and Budget

“Quality Management at the Federal Level,” October 15, 1999

The Honorable Charles O. Rossotti, Commissioner, Internal Revenue Service

Ms. Martha Johnson, Chief of Staff, General Services Administration

Ms. Colleen M. Kelley, National President, National Treasury Employees Union

Mr. Bobby L. Harnage, Sr., National President, American Federation of Government Employees

Mr. J. Christopher Mihm, Associate Director, Federal Management and Workforce Issues, General Government Division, U.S. General Accounting Office

Mr. James R. White, Director, Tax Policy and Administration Issues, General Government Division, U.S. General Accounting Office

Mr. Bernard Ungar, Director, Government Business Operations Issues, General Government Division, U.S. General Accounting Office

“Managing Human Capital in the Twenty-first Century,” March 9, 2000

The Honorable David M. Walker, Comptroller General of the United States, U.S. General Accounting Office

The Honorable Janice R. Lachance, Director, Office of Personnel Management

“The Effectiveness of Federal Employee Incentive Programs,” May 2, 2000

The Honorable Roberta Gross, Inspector General, National Aeronautics and Space Administration

The Honorable Henry Romero, Associate Director, Workforce Compensation and Performance, Office of Personnel Management

Ms. Colleen M. Kelley, National President, National Treasury Employees Union

Mr. Michael Brostek, Associate Director, Federal Management and Workforce Issues, General Government Division, U.S. General Accounting Office

“Has Government Been ‘Reinvented’?,” May 4, 2000

Mr. J. Christopher Mihm, Associate Director, Federal Management and Workforce Issues, General Government Division, U.S. General Accounting Office

Mr. Paul C. Light, Vice President and Director, Governmental Studies Program, The Brookings Institution

Dr. Donald Kettl, Professor of Political Science and Public Affairs, LaFollette Institute of Public Affairs, University of Wisconsin-Madison

Mr. Ronald C. Moe, Project Coordinator, Government and Finance Division, Congressional Research Service, The Library of Congress

Mr. Scott A. Hodge, Director of Tax and Budget Policy, Citizens for a Sound Economy

“Training Federal Employees to be Their Best,” May 18, 2000

The Honorable John U. Sepulveda, Deputy Director, U.S. Office of Personnel Management

The Honorable Diane M. Disney, Ph.D., Deputy Assistant Secretary, Civilian Personnel Policy, Department of Defense

Mr. Michael Brostek, Associate Director, Federal Management and Workforce Issues, General Government Division, U.S. General Accounting Office

Mr. Bobby L. Harnage, Sr., National President, American Federation of Government Employees

Ms. Tina Sung, President and CEO, American Society for Training and Development

Mr. Thomas J. Mosgaller, Vice President, American Society for Quality

APPENDIX B

COMMITTEE ON GOVERNMENTAL AFFAIRS 106th Congress

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SUBCOMMITTEE STAFF CONTRIBUTING TO THIS REPORT

Kristine I. Simmons, *Staff Director*
Andrew Richardson, *Professional Staff Member*
Mason Alinger, *Professional Staff Member*
Julie L. Vincent, *Chief Clerk*

Topic Page on the Human Capital Crisis in Radiation Safety. Statement of the Issue. A projected shortfall in sufficiently educated radiation safety professionals has placed a burden on industries using radiation to support our nation's energy, security, and health needs. This national shortage is primarily due to a lack of funding of academic research and educational health physics programs. Another concern is the anticipated large number of radiation safety personnel reaching retirement age in the near future. Health Physics Society Documents. Human Capital Crisis in Radiation Safety - A Human Capital Crisis in Cybersecurity. Technical Proficiency Matters. A Report of the CSIS Commission on Cybersecurity for the 44th Presidency.Â Center for strategic & international studies. A Human Capital Crisis in Cybersecurity. Technical Proficiency Matters. A Report of the CSIS Commission on Cybersecurity for the 44th Presidency.

