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## HUMAN CAPITAL

# Observations on Final Regulations for DOD's National Security Personnel System

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





Highlights of [GAO-06-227T](#), a testimony to the Committee on Homeland Security and Governmental Affairs, U.S. Senate

## Why GAO Did This Study

People are critical to any agency transformation because they define an agency's culture, develop its knowledge base, promote innovation, and are its most important asset. Thus, strategic human capital management at the Department of Defense (DOD) can help it marshal, manage, and maintain the people and skills needed to meet its critical mission. In November 2003, Congress provided DOD with significant flexibility to design a modern human resources management system. On November 1, 2005, DOD and the Office of Personnel Management (OPM) jointly released the final regulations on DOD's new human resources management system, known as the National Security Personnel System (NSPS).

Several months ago, with the release of the proposed regulations, GAO observed that some parts of the human resources management system raised questions for DOD, OPM, and Congress to consider in the areas of pay and performance management, adverse actions and appeals, and labor management relations. GAO also identified multiple implementation challenges for DOD once the final regulations for the new system were issued.

This testimony provides GAO's overall observations on selected provisions of the final regulations.

[www.gao.gov/cgi-bin/getrpt?GAO-06-227T](http://www.gao.gov/cgi-bin/getrpt?GAO-06-227T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Derek B. Stewart at (202) 512-5559 or [stewartd@gao.gov](mailto:stewartd@gao.gov).

## HUMAN CAPITAL

# Observations on Final Regulations for DOD's National Security Personnel System

## What GAO Found

GAO believes that DOD's final NSPS regulations contain many of the basic principles that are consistent with proven approaches to strategic human capital management. For instance, the final regulations provide for (1) a flexible, contemporary, market-based and performance-oriented compensation system—such as pay bands and pay for performance; (2) giving greater priority to employee performance in its retention decisions in connection with workforce rightsizing and reductions-in-force; and (3) involvement of employee representatives throughout the implementation process, such as having opportunities to participate in developing the implementing issuances. However, future actions will determine whether such labor relations efforts will be meaningful and credible.

Despite these positive aspects of the regulations, GAO has several areas of concern. First, DOD has considerable work ahead to define the important details for implementing its system—such as how employee performance expectations will be aligned with the department's overall mission and goals and other measures of performance, and how DOD would promote consistency and provide general oversight of the performance management system to ensure it is administered in a fair, credible, transparent manner. These and other critically important details must be defined in conjunction with applicable stakeholders. Second, the regulations merely allow, rather than require, the use of core competencies that can help to provide consistency and clearly communicate to employees what is expected of them. Third, although the regulations do provide for continuing collaboration with employee representatives, they do not identify a process for the continuing involvement of individual employees in the implementation of NSPS.

Going forward, GAO believes that (1) DOD would benefit from developing a comprehensive communications strategy, (2) DOD must ensure that it has the necessary institutional infrastructure in place to make effective use of its new authorities, (3) a chief management officer or similar position is essential to effectively provide sustained and committed leadership to the department's overall business transformation effort, including NSPS, and (4) DOD should develop procedures and methods to initiate implementation efforts relating to NSPS.

While GAO strongly supports human capital reform in the federal government, how it is done, when it is done, and the basis on which it is done can make all the difference in whether such efforts are successful. DOD's regulations are especially critical and need to be implemented properly because of their potential implications for related governmentwide reform. In this regard, in our view, classification, compensation, critical hiring, and workforce restructuring reforms should be pursued on a governmentwide basis before and separate from any broad-based labor-management or due process reforms.

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Madame Chairman Collins, Senator Lieberman, and Members of the Committee:

I appreciate the opportunity to be here today to provide our observations on the Department of Defense's (DOD) final National Security Personnel System (NSPS) regulations, which the Secretary of Defense and the Director of the Office of Personnel Management (OPM) published earlier this month.<sup>1</sup> NSPS will not only affect the roughly 700,000 DOD civilian employees, but it could have far-reaching implications for civil service reform across the federal government.

As I have previously testified, we support moving forward with appropriate human capital reform, but how it is done, when it is done, and the basis on which it is done can make all the difference in whether such efforts are successful. Human capital reforms to date recognize that the "one-size-fits-all" approach is not appropriate to all agencies' demands, challenges, and missions. However, we have reported that a reasonable degree of consistency across the government is desirable and that broader reforms should be guided by a common framework consisting of principles, criteria, and processes.<sup>2</sup> The final NSPS regulations, if implemented properly, could go a long way in the area of helping to shape such a framework and serve, along with GAO's, the Department of Homeland Security's, and other reform efforts, as a potential model for governmentwide reform in the area of human capital management.

### Summary

My statement today makes three overall points. First, DOD has considerable work ahead to define the details of the implementation of its system, and understanding these details is critical to the overall success of the system. We find that the final regulations contain many of the basic principles that are consistent with proven approaches to strategic human

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<sup>1</sup> Department of Defense Human Resources Management and Labor Relations System, 70 Fed. Reg. 66116 (Nov. 1, 2005).

<sup>2</sup> GAO and the National Commission on the Public Service Implementation Initiative, *Highlights of a Forum: Human Capital: Principles, Criteria, and Processes for Governmentwide Federal Human Capital Reform*, [GAO-05-69SP](#) (Washington, D.C.: Dec. 1, 2004)

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capital management, including several approaches used by GAO.<sup>3</sup> DOD has plans to issue a number of issuances that will contain detailed policies and procedures for the new system. These issuances will be of critical importance and their content will include important details that can serve to either enhance or reduce the likelihood of a successful implementation. These critically important details must be defined in conjunction with applicable key stakeholders and certain steps should be taken before any new authorities are implemented.

Specifically, DOD and other federal agencies must ensure they have the institutional infrastructure in place to make effective use of their new authorities. This institutional infrastructure includes, at a minimum, a human capital planning process that integrates the agency's human capital policies, strategies, and programs with its program goals, mission, and desired outcomes; the capabilities to effectively develop and implement a new human capital system; and importantly, the existence of a modern, effective, and credible performance management system that includes adequate safeguards to ensure a fair, effective, non-discriminatory, and credible implementation of the new system.

Second, DOD has stated that it is committed to continuing to involve employees, including employee representatives, throughout the implementation process, another critical ingredient for success. For instance, under the final regulations, employee representatives are to have opportunities to participate in developing the implementing issuances, as outlined under the "continuing collaboration" provisions. However, future actions will determine whether such employee and labor relations efforts will be meaningful and credible. In this regard, despite extensive efforts by many, DOD's attempts to date to involve labor unions have not been without controversy. Ten federal labor unions have filed suit alleging that DOD failed to abide by the statutory requirements to include employee representatives in the development of the labor relations system, and that the new adverse actions process and labor relations system are unlawful.<sup>4</sup>

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<sup>3</sup> GAO, *Human Capital: Preliminary Observations on Proposed Regulations for DOD's National Security Personnel Systems*, [GAO-05-559T](#) (Washington, D.C.: Apr. 14, 2005); GAO, *Human Capital: Preliminary Observations on Proposed Department of Defense National Security Personnel System Regulations*, [GAO-05-517T](#) (Washington, D.C.: Apr. 12, 2005); GAO, *Preliminary Observations on Proposed DOD National Security Personnel System Regulations*, [GAO-05-432T](#) (Washington, D.C.: Mar. 15, 2005).

<sup>4</sup> See *American Federation of Government Employees, AFL-CIO et al v. Rumsfeld et al*, No. 1:05cv02183 (D.D.C. filed Nov. 7, 2005).

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We believe that sustained and committed leadership can provide the continuing, focused attention needed to successfully complete this multiyear conversion to the new human resources management system, and an ongoing two-way communication strategy can help ensure the quality of that involvement.

Third, and finally, recent actions, as evidenced by these DOD final regulations, may have significant, precedent-setting implications for the rest of the government. They represent both progress and opportunities, but also raise legitimate concerns. We are fast approaching the point where “standard governmentwide” human capital policies and processes are neither standard nor governmentwide. Human capital reform should avoid further fragmentation within the civil service, ensure reasonable consistency within the overall civilian workforce, and help maintain a reasonably level playing field among federal agencies when competing for talent. Further, human capital reform should maintain key merit principles and appropriate safeguards against discrimination and other prohibited personnel practices. While we strongly support human capital reform in the federal government, how it is done, when it is done, and the basis on which it is done can make all the difference in whether such efforts are successful. In our view, classification, compensation, critical hiring, and workforce restructuring reforms should be pursued on a governmentwide basis before and separate from any broad-based labor- management or due process reforms.

This morning I would like to (1) provide some observations on selected provisions, (2) discuss the multiple challenges that DOD faces as it moves toward implementation of its new human resources management system, and then (3) suggest a governmentwide framework that can serve as a starting point to advance human capital reform. Lastly, I will suggest next steps for human capital reform.

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## Observations on DOD’s Final Human Capital Regulations

DOD’s final NSPS regulations establish a new human resources management system within the department that is intended to ensure its ability to attract, retain, and reward a workforce that is able to meet its critical mission. Further, the human resources management system is to provide DOD with greater flexibility in the way employees are to be paid, developed, evaluated, afforded due process, and represented by employee representatives while reflecting the principles of merit and fairness embodied in the statutory merit systems principles.

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As with any major change management initiative, the final regulations have raised a number of concerns among employees, employee representatives, and other stakeholders because they do not contain many of the important details of how the system will be implemented. We have reported that individuals inevitably worry during any change management initiative because of uncertainty over new policies and procedures.<sup>5</sup> A key practice to help address this worry is to involve employees and their representatives to obtain their ideas and gain their ownership for the initiative throughout the development process and related implementation effort.

We continue to believe that many of the basic principles underlying DOD's final regulations are generally consistent with proven approaches to strategic human capital management. Today, I will provide our observations on the following elements of DOD's human resources management system as outlined in the final regulations—pay and performance management, staffing and employment, workforce shaping, adverse actions and appeals, and labor management relations.

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## Pay and Performance Management

Earlier this year, we testified that DOD's proposed NSPS regulations reflected a growing understanding that the federal government needs to fundamentally rethink its current approach to pay and better link pay to individual and organizational performance.<sup>6</sup> To this end, DOD's final regulations take another valuable step toward a modern performance management system that provides for elements of a more market-based and performance-oriented pay system. For instance, the final regulations provide for the creation of pay bands for most of DOD's civilian workforce that would replace the 15-grade General Schedule (GS) system now in place for most civil service employees. Specifically, DOD, after coordination with OPM, may define occupational career groups and levels of work within each career group that are tailored to the department's missions and components. The final regulations also give DOD considerable discretion, after coordination with OPM, to set and annually adjust the minimum and maximum rates of pay for each of those career

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<sup>5</sup> GAO, *Results-Oriented Cultures: Implementing Steps to Assist Mergers and Organizational Transformations*, GAO-03-669 (Washington, D.C.: July 2, 2003) and *Highlights of a GAO Forum: Lessons Learned for a Department of Homeland Security and Other Federal Agencies*, GAO-03-293SP (Washington, D.C.: Nov. 14, 2002).

<sup>6</sup> GAO-05-559T, GAO-05-517T, and GAO-05-432T.

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groups or bands, based on national and local labor market factors and other conditions such as availability of funds. In addition, the regulations provide that DOD may, after coordination with OPM, set and annually adjust local market supplements for different career groups or for different bands within the same career group. We strongly support the need to expand pay reform in the federal government and believe that implementing more market-based and performance-oriented pay systems is both doable and desirable. The federal government's current pay system is heavily weighted toward rewarding length of service rather than individual performance and contributions, including requiring across-the-board annual pay increases, even to poor performers. It also compensates employees living in various localities without adequately considering the local labor market rates applicable to the diverse types of occupations in the area.

Regarding performance management issues, we identified several issues in earlier testimonies that DOD will need to continue to address as it moves forward with the implementation of the system. These include aligning individual performance to organizational goals, using competencies to provide a fuller assessment of employee performance, making meaningful distinctions in employee performance, and continuing to incorporate adequate safeguards to ensure fairness and guard against abuse.

### Aligning Individual Performance to Organizational Goals

Consistent with leading practices, the DOD final regulations stipulate that the performance management system will, among other things, align individual performance expectations with the department's overall mission and strategic goals, organizational program and policy objectives, annual performance plans, and other measures of performance. DOD's performance management system can be a vital tool for aligning the organization with desired results and creating a "line of sight" showing how team, unit, and individual performance can contribute to overall organizational results. To this end, an explicit alignment of daily activities with broader results is one of the defining features of effective performance management systems in high-performing organizations. In our previous testimony on DOD proposed NSPS regulations,<sup>7</sup> we testified that the regulations did not detail how DOD was to achieve such an alignment. The final regulations were not modified to provide such details. These details do matter and are critical issues that will need to be

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<sup>7</sup> [GAO-05-517T](#).

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addressed as DOD's efforts in implementing a new personnel system move forward.<sup>8</sup>

### Using Competencies to Provide a Fuller Assessment of Performance

In the final regulations, performance expectations may take several different forms. These include, among others, goals or objectives that set general or specific performance targets at the individual, team, or organizational level; a particular work assignment, including characteristics such as quality, quantity, accuracy, or timeliness; core competencies that an employee is expected to demonstrate on the job; or the contributions that an employee is expected to make. In a previous testimony, we reported that DOD needed to define, in more detail than was provided in the proposed regulations, how performance expectations will be set. In addition, public comments to the proposed regulations expressed concerns about the variety of forms that performance expectations could take. In response to public comments to its proposed regulations and feedback obtained during the meet and confer process with employee representatives, DOD modified the proposed regulations, so that the final regulations state that the basic performance expectations should be provided to employees in writing.

As DOD develops its implementing issuances, the experiences of leading organizations suggest that DOD should reconsider its position of merely allowing, rather than requiring, the use of core competencies as a central feature of its performance management system.<sup>9</sup> Based on our review of others' efforts and our own experience at GAO, core competencies can help reinforce employee behaviors and actions that support the department's mission, goals, and values and can provide a consistent message to employees about how they are expected to achieve results.<sup>10</sup> By including competencies such as change management, achieving results, teamwork and collaboration, cultural sensitivity, and information sharing, DOD could create a shared responsibility for organizational success and help ensure accountability for the transformation process.

### Making Meaningful Distinctions in Employee Performance

High-performing organizations make meaningful distinctions between acceptable and outstanding performance of individuals and appropriately

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<sup>8</sup> GAO-05-517T.

<sup>9</sup> GAO, *Results-Oriented Cultures: Creating a Clear Linkage between Individual Performance and Organizational Success*, GAO-03-488 (Washington, D.C.: Mar. 14, 2003).

<sup>10</sup> GAO, *Human Capital: Implementing Pay for Performance at Selected Personnel Demonstration Projects*, GAO-04-83 (Washington, D.C.: Jan. 23, 2004).



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reward those who perform at the highest level.<sup>11</sup> These organizations seek to create pay, incentive, and reward systems that clearly link employee knowledge, skills, and contributions to organizational results. As in the proposed regulations, DOD's final regulations stated that DOD supervisors and managers are to be held accountable for making meaningful distinctions among employees based on performance and contribution, fostering and rewarding excellent performance, and addressing poor performance.

Consistent with the proposed regulations, the final regulations provide for a multilevel rating system for evaluating employee performance. However, the final regulations do not specify exactly how many rating levels will be used. We urge DOD to consider using at least four summary rating levels to allow for greater performance-rating and pay differentiation. This approach is in the spirit of the new governmentwide performance-based pay system for the Senior Executive Service (SES), which requires at least four rating levels to provide a clear and direct link between SES performance and pay as well as to make meaningful distinctions based on relative performance. Cascading this approach to other levels of employees can help DOD recognize and reward employee contributions and achieve the highest levels of individual performance.<sup>12</sup>

Providing Adequate Safeguards  
to Ensure Fairness and Guard  
Against Abuse

As DOD develops its implementing issuances, it needs to continue building safeguards into its performance management system to ensure fairness and guard against abuse. A concern that employees often express about any pay for performance system is supervisors' ability and willingness to assess performance fairly. Using safeguards, such as having an independent body to conduct reasonableness reviews of performance management decisions, can help allay these concerns and build a fair, credible, and transparent system. In our previous testimonies,<sup>13</sup> we noted that although DOD's proposed regulations provided for some safeguards, additional safeguards should be developed. However, the final regulations do not offer details on how DOD would, among other things, (1) promote consistency and provide general oversight of the performance management system to ensure it is administered in a fair, credible, and

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<sup>11</sup> [GAO-03-488](#).

<sup>12</sup> GAO, *Human Capital: Observations on Final DHS Human Capital Regulation*, [GAO-05-391T](#) (Washington, D.C.: Mar. 2, 2005).

<sup>13</sup> [GAO-05-559T](#), [GAO-05-517T](#), and [GAO-05-432T](#).

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transparent manner; and (2) incorporate predecisional internal safeguards to achieve consistency and equity, and ensure nondiscrimination and nonpoliticization of the performance management process. As DOD moves forward, it will need to commit itself to define, in more detail than is currently provided, how it plans to review such matters as the establishment and implementation of the performance appraisal system—and, subsequently, performance rating decisions, pay determinations, and promotion actions—before these actions are finalized, to ensure they are merit based.

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## Staffing and Employment

The authorizing legislation allows DOD to implement additional hiring flexibilities that would allow it to (1) determine that there is a severe shortage of candidates or a critical hiring need and (2) use direct-hire procedures for these positions. Under current law, OPM, rather than the agency, determines whether there is a severe shortage of candidates or a critical hiring need. Direct-hire authority allows an agency to appoint candidates to positions without adherence to certain competitive examining requirements (such as veterans' preference or numerically rating candidates based on experience, training, and education) when there is a severe shortage of qualified candidates or a critical hiring need.

In our previous testimonies, we noted that while we strongly endorse providing agencies with additional tools and flexibilities to attract and retain needed talent, additional analysis may be needed to ensure that any new hiring authorities are consistent with a focus on merit principles, the protection of employee rights, and results. Hiring flexibilities alone will not enable federal agencies to acquire the personnel necessary to accomplish their missions. Agencies must first conduct gap analyses of the critical skills and competencies needed in their workforces now and in the future, or they may not be able to effectively design strategies to hire, develop, and retain the best possible workforces.

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## Workforce Shaping

Similar to the proposed regulations, the final NSPS regulations allow DOD to reduce, realign, and reorganize the department's workforce through revised reduction-in-force (RIF) procedures. For example, employees would be placed on a retention list in the following order: tenure group (i.e., a career employee, including an employee serving an initial probationary period and an employee serving on a term appointment), veterans' preference eligibility (disabled veterans will be given additional priority), level of performance, and length of service. In a change from the proposed regulations, employees serving in an initial probationary period

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have a lower retention standing than career employees (i.e., permanent will be listed first, followed by employees serving an initial probationary period, and then followed by employees on temporary appointments). In another change, the final regulations reflect the use of more than one year's performance ratings in placing employees on the retention list. Under current regulations, length of service is considered ahead of level of performance. I have previously testified, prior to the enactment of NSPS, in support of revised RIF procedures that would require much greater consideration of an employee's performance.<sup>14</sup>

DOD's approach to reducing, realigning, and reorganizing should be oriented toward strategically shaping the makeup of its workforce if it is to ensure the orderly transfer of institutional knowledge and achieve mission results. DOD's final regulations include some changes that would allow DOD to rightsize the workforce more carefully through greater precision in defining competitive areas, and by reducing the disruption associated with RIF orders as their affect ripples through an organization. Under the current regulations, the minimum RIF competitive area is broadly defined as an organization under separate administration in a local commuting area. Under the final NSPS regulations, DOD would be able to establish a minimum RIF competitive area on a more targeted basis, using one or more of the following factors: geographical location, line of business, product line, organizational unit, and funding line. The final regulations also provide DOD with the flexibility to develop additional competitive groupings on the basis of career group, occupational series or specialty, and pay band. Under the current GS system, DOD can establish competitive groups based only on employees (1) in the excepted and competitive service, (2) under different excepted service appointment authorities, (3) with different work schedules,<sup>15</sup> (4) in the same pay schedule, or (5) in trainee status. The new reforms could help DOD approach rightsizing more carefully; however, as I have stated, agencies first need to identify the critical skills and competencies needed in their workforce if they are to effectively implement their new human capital flexibilities.

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<sup>14</sup>GAO, *Defense Transformation: DOD's Proposed Civilian Personnel System and Governmentwide Human Capital Reform*, [GAO-03-741T](#) (Washington, D.C.: May 1, 2003); and GAO, *Human Capital: Building on DOD's Reform Effort to Foster Governmentwide Improvements*, [GAO-03-851T](#) (Washington, D.C.: June 4, 2003).

<sup>15</sup> For example, employees who work full time, part time, seasonally, or intermittently.

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## Adverse Actions and Appeals

Similar to DOD's proposed regulations, the final regulations are intended to streamline the employee adverse action process. While the final regulations contain some features meant to ensure that employees receive due process, such as advance written notice of a proposed adverse action, they do not require DOD managers to provide employees with performance improvement periods, as is required under existing law for other federal employees. It is too early to tell what affect, if any, these final regulations will have on DOD's operations and employees or on other entities involved in the adverse action process, such as the Merit Systems Protection Board (MSPB). Close monitoring of any unintended consequences, such as on the MSPB and its ability to manage adverse action cases from DOD and other federal agencies, is warranted.<sup>16</sup>

Similar to the proposed regulations, DOD's final regulations also modify the current federal system by providing the Secretary of Defense with the sole, exclusive, and unreviewable authority to identify specific offenses for which removal is mandatory. In our previous testimonies, we noted that DOD's proposed regulations only indicated that its employees would be made aware of the mandatory removal offenses. We also noted that the process for determining and communicating which types of offenses require mandatory removal should be explicit and transparent, and involve relevant congressional stakeholders, employees, and employee representatives. Moreover, we suggested that DOD exercise caution when identifying specific removable offenses and the associated punishment, and noted that careful drafting of each removable offense is critical to ensure that the provision does not have unintended consequences. In a change from the proposed regulations, DOD's final regulations explicitly provide for publishing a list of the mandatory removal offenses in the Federal Register.

Similar to its proposed regulations, DOD's final regulations generally preserve the employee's basic right to appeal mandatory removal offenses and other adverse action decisions to an independent body—the MSPB—but retain the provision to permit an internal DOD review of the initial decisions issued by MSPB adjudicating officials. Under this internal review, DOD can modify or reverse an initial decision or remand the

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<sup>16</sup> Ten federal labor unions have filed suit alleging that, among other things, DOD's adverse actions and appeals process is unlawful. See *American Federation of Government Employees, AFL-CIO et al v. Rumsfeld et al*, No. 1:05cv02183 (D.D.C. filed Nov. 7, 2005).

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matter back to the adjudicating official for further consideration. Unlike other criteria for review of initial decisions, DOD can modify or reverse an initial MSPB adjudicating official's decision where the department determines that the decision has a direct and substantial adverse effect on the department's national security mission.<sup>17</sup> In our previous testimonies on the proposed regulations, we expressed some concern about the department's internal review process and pointed out that the proposed regulations do not offer additional details on the department's internal review process, such as how the review will be conducted and who will conduct it. We noted that an internal agency review process this important should be addressed in the regulations rather than in an implementing directive to ensure adequate transparency and employee confidence in the process. However, the final regulations were not modified to include such details.

Similar to DOD's proposed regulations, the final regulations shorten the notification period before an adverse action can become effective, provide an accelerated MSPB adjudication process, and continue to give the MSPB administrative judges (AJs) and arbitrators less latitude to modify DOD-imposed penalties than under current practice. Under the current system, MSPB reviews penalties during the course of a disciplinary action against an employee to ensure that the agency considered relevant prescribed factors and exercised management discretion within tolerable limits of reasonableness. MSPB may mitigate or modify a penalty if the agency did not consider prescribed factors. In a change from the proposed regulations, which precluded the MSPB from modifying a penalty imposed on an employee by DOD for an adverse action unless such a penalty was so disproportionate to the basis of the action as to be "wholly without justification," under the final regulations the MSPB AJs and arbitrators will be able to mitigate a penalty only if it is "totally unwarranted in light of the pertinent circumstances" while the full MSPB Board may mitigate penalties in accordance with the standard prescribed in the NSPS authorizing legislation.<sup>18</sup> As stated by DOD in the supplementary

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<sup>17</sup> Any final DOD decision under this review process may be further appealed to the full MSPB. Further, the Secretary of Defense or an employee adversely affected by a final order of decision of the full MSPB may seek judicial review.

<sup>18</sup> The full MSPB Board may order such corrective actions, including the mitigation of penalties, as the board considers appropriate where the Board determines a decision was: arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with the law; obtained without procedures required by law, rule, or regulation having been followed; or unsupported by substantial evidence. 5 U.S.C. § 9902(h)(5).

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information to the final regulations, the “totally unwarranted in light of all pertinent circumstances” standard is similar to that recognized by the federal courts and is intended to limit mitigation of penalties by providing deference to an agency’s penalty determination.

The final regulations continue to encourage the use of alternative dispute resolution (ADR) and provide that this approach be subject to collective bargaining to the extent permitted by the final labor relations regulations. To resolve disputes in a more efficient, timely, and less adversarial manner, federal agencies have been expanding their human capital programs to include ADR approaches, including the use of ombudsmen as an informal alternative to addressing conflicts. As we have reported, ADR helps lessen the time and the cost burdens associated with the federal redress system and has the advantage of employing techniques that focus on understanding the disputants’ underlying interests rather than techniques that focus on the validity of their positions. For these and other reasons, we believe that it is important to continue to promote ADR throughout the process.

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## Labor-Management Relations

The final regulations recognize the right of employees to organize and bargain collectively. Similar to the proposed regulations, the final regulations would reduce the scope of collective bargaining by removing the requirement for DOD management to bargain on matters considered to be management rights—such as the policies and procedures for deploying personnel, assigning work, and introducing new technologies. However, in a departure from the proposed regulations, the final regulations provide that the Secretary of Defense may authorize bargaining on these management rights if the Secretary in his or her sole, exclusive, and unreviewable discretion determines that bargaining would be necessary to advance the department’s mission or promote organizational effectiveness.<sup>19</sup>

Our previous work on individual agencies’ human capital systems has not directly addressed the scope of specific issues that should or should not be subject to collective bargaining and negotiations. At a forum we co-hosted exploring the concept of a governmentwide framework for human

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<sup>19</sup> Ten federal labor unions have filed suit alleging that, among other things, DOD’s labor relations system is unlawful. See *American Federation of Government Employees, AFL-CIO et al v. Rumsfeld et al*, No. 1:05cv02183 (D.D.C. filed Nov. 7, 2005).

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capital reform, which I will discuss later, participants generally agreed that the ability to organize, bargain collectively, and participate in labor organizations is an important principle to be retained in any framework for reform.

DOD's final regulations create its own internal labor relations board—the National Security Labor Relations Board—to deal with most departmentwide labor relations policies and disputes rather than submit them to the Federal Labor Relations Authority. DOD's proposed regulations did not provide for any employee representative input into the appointment of board members. However, DOD's final regulations require that for the appointment of two of the three board members, the Secretary of Defense must consider candidates submitted by employee representatives. However, the Secretary retains the authority to both appoint and remove any member.

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## DOD Faces Many Challenges to Successful Implementation

With the issuance of the final regulations, DOD faces multiple challenges to the successful implementation of its new human resources management system. We highlighted multiple implementation challenges at prior hearings and in our July 2005 report on DOD's efforts to design the new system.<sup>20</sup> For information about these challenges identified in our prior work, as well as related human capital issues that could potentially affect the implementation of NSPS, see the "Highlights" pages from previous GAO products on DOD civilian personnel issues in appendix I.

We continue to believe that addressing these challenges is critical to the success of DOD's new human resources management system. These challenges include establishing an overall communications strategy, ensuring sustained and committed leadership, providing adequate resources for the implementation of the new system, involving employees in implementing the system, and evaluating the new system after it has been implemented.

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## Establishing an Overall Communications Strategy

Another significant challenge for DOD is to ensure an effective and ongoing two-way communications strategy, given DOD's size, geographically and culturally diverse audiences, and the different

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<sup>20</sup> GAO, *Human Capital: DOD's National Security Personnel System Faces Implementation Challenges*, GAO-05-730 (Washington, D.C.: July 14, 2005).

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command structures across DOD organizations. While we have reported that developing a comprehensive communications strategy is a key practice of a change management initiative,<sup>21</sup> we reported in July 2005 that DOD lacks such a strategy.<sup>22</sup> We recommended that the Secretary of Defense take steps to ensure that its communications strategy effectively addresses employee concerns and their information needs, and facilitates two-way communication between employees, employee representatives, and management. In prior testimonies, we also suggested that this communications strategy must involve a number of key players, including the Secretary of Defense.

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## Providing Adequate Resources for Implementing the New System

DOD also is challenged to provide adequate resources to implement its new personnel system, especially in times of increased fiscal constraints. OPM reports that the increased costs of implementing alternative personnel systems should be acknowledged and budgeted for up front.<sup>23</sup> Based on the data provided by selected OPM personnel demonstration projects, we found that direct costs associated with salaries and training were among the major cost drivers of implementing pay for performance systems. Certain costs, such as those for initial training on the new system, are one-time in nature and should not be built into the base of DOD's budget. Other costs, such as employees' salaries, are recurring and thus should be built into the base of DOD's budget for future years. DOD estimates that the overall cost associated with implementing the new human resources management system—including developing and delivering training, modifying automated personnel information systems, and starting up and sustaining the National Security Labor Relations Board—will be approximately \$158 million through fiscal year 2008. Since experience has shown that additional resources are necessary to ensure sufficient planning, implementation, training, and evaluation for human capital reform, funding for NSPS will warrant close scrutiny by Congress as DOD's implements the new system.

We plan to evaluate the costs associated with the design and implementation of NSPS and look forward to sharing our findings with Congress upon completion of our review.

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<sup>21</sup> [GAO-03-669](#).

<sup>22</sup> [GAO-05-730](#).

<sup>23</sup> OPM, *Demonstration Projects and Alternative Personnel Systems: HR Flexibilities and Lessons Learned* (Washington, D.C.: September 2001).



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## Ensuring Sustained and Committed Leadership

One challenge DOD faces is the need to elevate, integrate, and institutionalize leadership responsibility for large-scale organizational change initiatives, such as its new human resources management system, to ensure success. A chief management officer or similar position could effectively provide the sustained and committed leadership essential to successfully completing these multiyear business transformation initiatives. Especially for an endeavor as critical as DOD's new human resources management system, such a position could serve to

- elevate attention to overcome an organization's natural resistance to change, marshal the resources needed to implement change, and build and maintain organizationwide commitment to new ways of doing business;
  - integrate this new system with various management responsibilities so that they are no longer "stove-piped" and fit into other organizational transformation efforts in a comprehensive, ongoing, and integrated manner; and
- institutionalize accountability for the system to sustain the implementation of this critical human capital initiative.<sup>24</sup>

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## Involving Employees and Other Stakeholders in Implementing the System

DOD faces a significant challenge in involving its employees, employee representatives, and other stakeholders in implementing NSPS. Similar to the proposed regulations, DOD's final regulations, while providing for continuing collaboration with employee representatives, do not identify a process for the continuing involvement of employees in implementation of NSPS. According to DOD, almost two-thirds of its 700,000 civilian employees are represented by 41 different labor unions, including over 1,500 separate bargaining units. Consistent with DOD's proposed regulations, its final NSPS regulations about the collaboration process, among other things, would permit the Secretary of Defense to determine (1) the number of employee representatives allowed to engage in the collaboration process, and (2) the extent to which employee representatives are given an opportunity to discuss their views with and

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<sup>24</sup> On September 9, 2002, we convened a roundtable of government leaders and management experts to discuss the chief operating officer concept. For more information, see GAO, *Highlights of a GAO Roundtable: The Chief Operating Officer Concept: A Potential Strategy to Address Federal Governance Challenges*, [GAO-03-192SP](#) (Washington, D.C.: Oct. 4, 2002), and *The Chief Operating Officer Concept and Its Potential Use as a Strategy to Improve Management at the Department of Homeland Security*, [GAO-04-876R](#) (Washington, D.C.: June 28, 2004).

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submit written comments to DOD officials. In addition, DOD's final regulations indicate that nothing in the continuing collaboration process will affect the right of the Secretary of Defense to determine the content of implementing guidance and to make this guidance effective at any time. DOD's final regulations will give designated employee representatives an opportunity to be briefed and to comment on the design and results of the new system's implementation.<sup>25</sup>

The active involvement of all stakeholders will be critical to the success of NSPS. Substantive and ongoing involvement by employees and their representatives both directly and indirectly is crucial to the success of new initiatives, including implementing a modified classification and pay for performance system. This involvement must be early, active, meaningful, and continuing if employees are to gain a sense of understanding and ownership of the changes that are being made. The 30-day public comment period on the proposed regulations ended March 16, 2005. During this time period, according to DOD, it received more than 58,000 comments. The public comment period was followed by a period during which DOD and OPM officials met and conferred with employee representatives to resolve differences on any portions of the proposed regulations where agreement had not been reached. Earlier this year, during testimony, we stated that the meet and confer process had to be meaningful and was critically important because there were many details of the proposed regulations that had not been defined. According to DOD, a significant issue raised in the public comments and during the meet and confer process concerned the lack of specificity in the proposed regulations. However, as we noted earlier in this statement, DOD still has considerable work to define the details for implementing its system. These details do matter, and how they are defined can have a direct bearing on whether or not the ultimate new human resources management system is both reasoned and reasonable.

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## Evaluating DOD's New Human Resources Management System

Evaluating the effect of NSPS will be an ongoing challenge for DOD. This element is especially important because DOD's final regulations would give managers more authority and responsibility for managing the new human resources management system than they have under the existing

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<sup>25</sup> Ten federal labor unions have filed suit alleging that, among other things, DOD failed to abide by the statutory requirements to include employee representatives in the development of DOD's new labor relations system authorized as part of NSPS. See *American Federation of Government Employees, AFL-CIO et al v. Rumsfeld et al*, No. 1:05cv02183 (D.D.C. filed Nov. 7, 2005).

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system. High-performing organizations continually review and revise their human capital management systems based on data-driven lessons learned and changing needs in the work environment. Collecting and analyzing data on the costs, benefits, and effects of NSPS will be the fundamental building block for measuring the effectiveness of NSPS in support of the mission and goals of the department.

DOD's final regulations indicate that DOD will evaluate the regulations and their implementation. In our July 2005 report on DOD's efforts to design NSPS, we recommended that DOD develop procedures for evaluating NSPS that contain results-oriented performance measures and reporting requirements.<sup>26</sup> We also recommended that these evaluation procedures could be broadly modeled on the evaluation requirements of the OPM demonstration projects. Under the demonstration project authority, agencies must evaluate and periodically report on results, implementation of the demonstration project, cost and benefits, effects on veterans and other equal employment opportunity groups, adherence to merit system principles, and the extent to which the lessons from the project can be applied governmentwide. A set of balanced measures addressing a range of results and customer, employee, and external partner issues may also prove beneficial. An evaluation such as this would: facilitate congressional oversight; allow for any midcourse corrections; assist DOD in benchmarking its progress with other efforts; and provide for documenting best practices and sharing lessons learned with employees, stakeholders, other federal agencies, and the public. In commenting on our recommendation, the department stated that it has begun developing an evaluation plan and will ensure that the plan contains results-oriented performance measures and reporting mechanisms. If the department follows through with this effort, we believe that it will be responsive to our recommendation.

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## Framework for Governmentwide Human Capital Reform

The federal government is quickly approaching the point where “standard governmentwide” human capital policies and processes are neither standard nor governmentwide, raising the issue of whether a governmentwide framework for human capital reform should be established. The human capital environment in the federal government is changing, illustrated by the fact that DOD's new human capital authority joins that given to several other federal departments and agencies—such

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<sup>26</sup> [GAO-05-730](#).

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as the Department of Homeland Security (DHS), GAO, the National Aeronautics and Space Administration, and the Federal Aviation Administration—to help them strategically manage their human resources management system to achieve results.

To help advance the discussion concerning how governmentwide human capital reform should proceed, we and the National Commission on the Public Service Implementation Initiative co-hosted a forum on whether there should be a governmentwide framework for human capital reform and, if so, what this framework should include.<sup>27</sup> While there was widespread recognition among the forum participants that a one-size-fits-all approach to human capital management is not appropriate for the challenges and demands faced by government, there was equally broad agreement that there should be a governmentwide framework to guide human capital reform. Further, a governmentwide framework should balance the need for consistency across the federal government with the desire for flexibility so that individual agencies can tailor human capital systems to best meet their needs. Striking this balance would not be easy to achieve, but is important for maintaining a governmentwide system that is responsive enough to adapt to agencies' diverse missions, cultures, and workforces.

While there were divergent views among the forum participants, there was general agreement on a set of principles, criteria, and processes that could serve as a starting point for further discussion in developing a governmentwide framework in advancing human capital reform, as shown in figure 1. We believe that these principles, criteria, and processes provide an effective framework for Congress and other decision makers to use as they consider governmentwide civil service reform proposals.

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<sup>27</sup> [GAO-05-69SP](#).

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**Figure 1: Principles, Criteria, and Processes for a Governmentwide Human Capital Reform Framework**

- Principles that the government should retain in a framework for reform because of their inherent, enduring qualities:**
- Merit principles that balance organizational mission, goals, and performance objectives with individual rights and responsibilities
  - Ability to organize, bargain collectively, and participate through labor organizations
  - Guaranteed due process that is fair, fast, and final
- Criteria that agencies should have in place as they plan for and manage their new human capital authorities:**
- Demonstrated business case or readiness for use of targeted authorities
  - An integrated approach to results-oriented strategic planning and human capital planning and management
  - Adequate resources for planning, implementation, training, and evaluation
  - A modern, effective, credible, and integrated performance management system that includes adequate safeguards to ensure equity and prevent discrimination
- Processes that agencies should follow as they implement new human capital authorities:**
- Prescribing regulations in consultation or jointly with the Office of Personnel Management
  - Establishing appeals processes in consultation with the Merit Systems Protection Board
  - Involving employees and stakeholders in the design and implementation of new human capital systems
  - Phasing in implementation of new human capital systems
  - Committing to transparency, reporting, and evaluation
  - Establishing a communications strategy
  - Ensuring adequate training

Source: GAO.

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## Next Steps for Human Capital Reform

Moving forward with human capital reform, in the short term, Congress should consider selected and targeted actions to continue accelerating the momentum to make strategic human capital management the centerpiece of the government's overall transformation effort. One option may be to provide agencies one-time, targeted investments that are not built into agencies' bases for future year budget requests. For example, Congress established the Human Capital Performance Fund to reward agencies' highest performing and most valuable employees. However, the Administration's draft proposed "Working for America Act" proposes to repeal the Human Capital Performance Fund. According to OPM, the provision was never implemented, due to lack of sufficient funding. We believe that a central fund has merit and can help agencies build the infrastructure needed to implement a more market-based and

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performance-oriented pay system. To be eligible, agencies would submit plans for approval by OPM that incorporate features such as a link between pay for performance and the agency's strategic plan, employee involvement, ongoing performance feedback, and effective safeguards to ensure fair management of the system. In the first year of implementation, up to 10 percent of the amount appropriated for the fund would be available to train employees who are involved in making meaningful distinctions in performance. These features are similar to those cited in the draft proposal as the basis for OPM's certification for agencies to implement their new pay and performance management systems.

In addition, as agencies develop their pay for performance systems, they will need to consider the appropriate mix between pay awarded as base pay increases versus one-time cash bonuses, while still maintaining fiscally sustainable compensation systems that reward performance. A key question to consider is how the government can make an increasing percentage of federal compensation dependent on achieving individual and organizational results by, for example, providing more compensation as one-time cash bonuses rather than as permanent salary increases. However, agencies' use of cash bonuses or other monetary incentives has an effect on employees' retirement calculations since they are not included in calculating retirement benefits. Congress should consider potential legislative changes to allow cash bonuses that would otherwise be included as base pay increases to be calculated toward retirement and thrift savings benefits by specifically factoring bonuses into the employee's base pay for purposes of making contributions to the thrift savings plan and calculating the employee's "high-three" for retirement benefits.

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## Concluding Observations

Consistent with our observations earlier this year, DOD's final NSPS regulations take another valuable step toward a modern performance management system that provides for a more market-based and performance-oriented pay system. DOD's final NSPS regulations are intended to align individual performance and pay with the department's critical mission requirements; provide meaningful distinctions in performance; and give greater priority to employee performance in connection with workforce rightsizing and reductions-in-force. However, how it is done, when it is done, and the basis on which it is done will be critical to the overall success of the new system. That is why it is important to recognize that it is critically important that DOD define the details for implementing its system and that DOD does it in conjunction with applicable key stakeholders. It is equally important for DOD to ensure

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that is has the necessary infrastructure in place to implement the system. DOD's regulations are especially critical and need to be implemented properly because of their potential implications for related governmentwide reform. However, compensation, pay, compensation, critical hiring, and workforce restructuring reforms should be the first step in any governmentwide reforms.

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## Contact and Acknowledgments

For further information, please contact Derek B. Stewart, Director, Defense Capabilities and Management, at (202) 512-5559 or [stewartd@gao.gov](mailto:stewartd@gao.gov). For further information on governmentwide human capital issues, please contact J. Christopher Mihm, Managing Director, Strategic Issues, at (202) 512-6806 or [mihmj@gao.gov](mailto:mihmj@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Individuals making key contributions to this statement include Sandra F. Bell, Renee S. Brown, William J. Doherty, George M. Duncan, Barbara L. Joyce, Julia C. Matta, Susan W. Tieh, and John S. Townes.



Highlights of [GAO-05-730](#), a report to Congressional Committees

## Why GAO Did This Study

The Department of Defense's (DOD) new personnel system—the National Security Personnel System (NSPS)—will have far-reaching implications not just for DOD, but for civil service reform across the federal government. The National Defense Authorization Act for Fiscal Year 2004 gave DOD significant authorities to redesign the rules, regulations, and processes that govern the way that more than 700,000 defense civilian employees are hired, compensated, promoted, and disciplined. In addition, NSPS could serve as a model for governmentwide transformation in human capital management. However, if not properly designed and effectively implemented, it could severely impede progress toward a more performance- and results-based system for the federal government as a whole.

This report (1) describes DOD's process to design its new personnel management system, (2) analyzes the extent to which DOD's process reflects key practices for successful transformations, and (3) identifies the most significant challenges DOD faces in implementing NSPS.

## What GAO Recommends

GAO is making recommendations to improve the comprehensiveness of the NSPS communication strategy and to evaluate the impact of NSPS. DOD did not concur with one recommendation and partially concurred with two others.

[www.gao.gov/cgi-bin/getrpt?GAO-05-730](http://www.gao.gov/cgi-bin/getrpt?GAO-05-730).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Derek B. Stewart at (202) 512-5559 or [stewartd@gao.gov](mailto:stewartd@gao.gov).

# HUMAN CAPITAL

## DOD's National Security Personnel System Faces Implementation Challenges

### What GAO Found

DOD's current process to design its new personnel management system consists of four stages: (1) development of design options, (2) assessment of design options, (3) issuance of proposed regulations, and (4) a statutory public comment period, a meet and confer period with employee representatives, and a congressional notification period. DOD's initial design process was unrealistic and inappropriate. However, after a strategic reassessment, DOD adjusted its approach to reflect a more cautious and deliberative process that involved more stakeholders.

DOD's NSPS design process generally reflects four of six selected key practices for successful organizational transformations. First, DOD and OPM have developed a process to design the new personnel system that is supported by top leadership in both organizations. Second, from the outset, a set of guiding principles and key performance parameters have guided the NSPS design process. Third, DOD has a dedicated team in place to design and implement NSPS and manage the transformation process. Fourth, DOD has established a timeline, albeit ambitious, and implementation goals. The design process, however, is lacking in two other practices. First, DOD developed and implemented a written communication strategy document, but the strategy is not comprehensive. It does not identify all key internal stakeholders and their concerns, and does not tailor key messages to specific stakeholder groups. Failure to adequately consider a wide variety of people and cultural issues can lead to unsuccessful transformations. Second, while the process has involved employees through town hall meetings and other mechanisms, it has not included employee representatives on the working groups that drafted the design options. It should be noted that 10 federal labor unions have filed suit alleging that DOD failed to abide by the statutory requirements to include employee representatives in the development of DOD's new labor relations system authorized as part of NSPS. A successful transformation must provide for meaningful involvement by employees and their representatives to gain their input into and understanding of the changes that will occur.

DOD will face multiple implementation challenges. For example, in addition to the challenges of continuing to involve employees and other stakeholders and providing adequate resources to implement the system, DOD faces the challenges of ensuring an effective, ongoing two-way communication strategy and evaluating the new system. In recent testimony, GAO stated that DOD's communication strategy must include the active and visible involvement of a number of key players, including the Secretary of Defense, for successful implementation of the system. Moreover, DOD must ensure sustained and committed leadership after the system is fully implemented and the NSPS Senior Executive and the Program Executive Office transition out of existence. To provide sustained leadership attention to a range of business transformation initiatives, like NSPS, GAO recently recommended the creation of a chief management official at DOD.





Highlights of [GAO-05-559T](#), a testimony before the Committee on Armed Services, U.S. Senate

## Why GAO Did This Study

The Department of Defense's (DOD) new human resources management system—the National Security Personnel System (NSPS)—will have far-reaching implications for civil service reform across the federal government. The 2004 National Defense Authorization Act gave DOD significant flexibilities for managing more than 700,000 defense civilian employees. Given DOD's massive size, NSPS represents a huge undertaking for DOD. DOD's initial process to design NSPS was problematic; however, DOD adjusted its approach to a more deliberative process that involved more stakeholders. NSPS could, if designed and implemented properly, serve as a model for governmentwide transformation in human capital management. However, if not properly designed and implemented, it could severely impede progress toward a more performance- and results-based system for the federal government as a whole.

On February 14, 2005, DOD and the Office of Personnel Management (OPM) released for public comment the proposed NSPS regulations. This testimony provides GAO's preliminary observations on selected provisions of the proposed regulations.

[www.gao.gov/cgi-bin/getrpt?GAO-05-559T](http://www.gao.gov/cgi-bin/getrpt?GAO-05-559T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Derek B. Stewart at (202) 512-5559 or [stewartd@gao.gov](mailto:stewartd@gao.gov).

## HUMAN CAPITAL

# Preliminary Observations on Proposed Regulations for DOD's National Security Personnel System

## What GAO Found

Many of the principles underlying the proposed NSPS regulations are generally consistent with proven approaches to strategic human capital management. For instance, the proposed regulations provide for (1) elements of a flexible and contemporary human resources management system—such as pay bands and pay for performance; (2) DOD to rightsize its workforce when implementing reduction-in-force orders by giving greater priority to employee performance in its retention decisions; and (3) continuing collaboration with employee representatives. The 30-day public comment period on the proposed regulations ended March 16, 2005. DOD and OPM have notified the Congress that they are preparing to begin the meet and confer process with employee representatives who provided comments on the proposed regulations. The meet and confer process is critically important because there are many details of the proposed regulations that have not been defined, especially in the areas of pay and performance management, adverse actions and appeals, and labor-management relations. (It should be noted that 10 federal labor unions have filed suit alleging that DOD failed to abide by the statutory requirements to include employee representatives in the development of DOD's new labor relations system authorized as part of NSPS.)

GAO has several areas of concern: the proposed regulations do not (1) define the details of the implementation of the system, including such issues as adequate safeguards to help ensure fairness and guard against abuse; (2) require, as GAO believes they should, the use of core competencies to communicate to employees what is expected of them on the job; and (3) identify a process for the continuing involvement of employees in the planning, development, and implementation of NSPS.

Also, GAO believes that DOD (1) would benefit if it develops a comprehensive communications strategy that provides for ongoing, meaningful two-way communication that creates shared expectations among employees, employee representatives, and stakeholders and (2) should complete a plan for implementing NSPS to include an information technology plan and a training plan. Until such a plan is completed, the full extent of the resources needed to implement NSPS may not be well understood.



Highlights of [GAO-05-517T](#), a testimony to the Subcommittee on the Federal Workforce and Agency Organization, Committee on Government Reform, House of Representatives

## Why GAO Did This Study

The Department of Defense's (DOD) new human resources management system—the National Security Personnel System (NSPS)—will have far-reaching implications for civil service reform across the federal government. The 2004 National Defense Authorization Act gave DOD significant flexibilities for managing more than 700,000 defense civilian employees. Given DOD's massive size, NSPS represents a huge undertaking for DOD. DOD's initial process to design NSPS was problematic; however, DOD adjusted its approach to a more deliberative process that involved more stakeholders. NSPS could, if designed and implemented properly, serve as a model for governmentwide transformation in human capital management. However, if not properly designed and implemented, it could severely impede progress toward a more performance- and results-based system for the federal government as a whole.

On February 14, 2005, DOD and the Office of Personnel Management (OPM) released for public comment the proposed NSPS regulations. This testimony (1) provides GAO's preliminary observations on selected provisions of the proposed regulations, (2) discusses the challenges DOD faces in implementing the new system, and (3) suggests a governmentwide framework to advance human capital reform.

[www.gao.gov/cgi-bin/getrpt?GAO-05-517T](http://www.gao.gov/cgi-bin/getrpt?GAO-05-517T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Derek B. Stewart at (202) 512-5559 or [stewartd@gao.gov](mailto:stewartd@gao.gov).

## HUMAN CAPITAL

# Preliminary Observations on Proposed Department of Defense National Security Personnel System Regulations

## What GAO Found

Many of the principles underlying the proposed NSPS regulations are generally consistent with proven approaches to strategic human capital management. For instance, the proposed regulations provide for (1) elements of a flexible and contemporary human resources management system—such as pay bands and pay for performance; (2) DOD to rightsize its workforce when implementing reduction-in-force orders by giving greater priority to employee performance in its retention decisions; and (3) continuing collaboration with employee representatives. The 30-day public comment period on the proposed regulations ended March 16, 2005. DOD and OPM have notified the Congress that they are preparing to begin the meet and confer process with employee representatives who provided comments on the proposed regulations. The meet and confer process is critically important because there are many details of the proposed regulations that have not been defined. (It should be noted that 10 federal labor unions have filed suit alleging that DOD failed to abide by the statutory requirements to include employee representatives in the development of DOD's new labor relations system authorized as part of NSPS.)

GAO has three primary areas of concern: the proposed regulations do not (1) define the details of the implementation of the system, including such issues as adequate safeguards to help ensure fairness and guard against abuse; (2) require, as GAO believes they should, the use of core competencies to communicate to employees what is expected of them on the job; and (3) identify a process for the continuing involvement of employees in the planning, development, and implementation of NSPS.

Going forward, GAO believes that (1) the development of the position of Deputy Secretary of Defense for Management, who would act as DOD's Chief Management Officer, is essential to elevate, integrate, and institutionalize responsibility for the success of DOD's overall business transformation efforts, including its new human resources management system; (2) DOD would benefit if it develops a comprehensive communications strategy that provides for ongoing, meaningful two-way communication that creates shared expectations among employees, employee representatives, and stakeholders; and (3) DOD must ensure that it has the institutional infrastructure in place, including a modern performance management system and an independent, efficient, effective, and credible external appeals process, to make effective use of its new authorities before they are operationalized.

GAO strongly supports the concept of modernizing federal human capital policies, including providing reasonable flexibility. The federal government needs a framework to guide human capital reform. Such a framework would consist of a set of values, principles, processes, and safeguards that would provide consistency across the federal government but be adaptable to agencies' diverse missions, cultures, and workforces.



Highlights of [GAO-05-432T](#), a testimony to the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Homeland Security and Governmental Affairs, U.S. Senate

## Why GAO Did This Study

The Department of Defense's (DOD) new human resources management system—the National Security Personnel System (NSPS)—will have far-reaching implications for the management of the department and for civil service reform across the federal government. The National Defense Authorization Act for Fiscal Year 2004 gave DOD significant authorities to redesign the rules, regulations, and processes that govern the way that more than 700,000 defense civilian employees are hired, compensated, promoted, and disciplined. In addition, NSPS could serve as a model for governmentwide transformation in human capital management. However, if not properly designed and effectively implemented, it could severely impede progress toward a more performance- and results-based system for the federal government as a whole.

On February 14, 2005, the Secretary of Defense and Acting Director of the Office of Personnel Management (OPM) released for public comment the proposed NSPS regulations. This testimony (1) provides GAO's preliminary observations on selected provisions of the proposed regulations, (2) discusses the challenges DOD faces in implementing the new system, and (3) suggests a governmentwide framework to advance human capital reform.

[www.gao.gov/cgi-bin/getrpt?GAO-05-432T](http://www.gao.gov/cgi-bin/getrpt?GAO-05-432T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Derek B. Stewart at (202) 512-5559 or [stewartd@gao.gov](mailto:stewartd@gao.gov).

## HUMAN CAPITAL

# Preliminary Observations on Proposed DOD National Security Personnel System Regulations

## What GAO Found

Given DOD's massive size and its geographically and culturally diverse workforce, NSPS represents a huge undertaking for DOD. DOD's initial process to design NSPS was problematic; however, after a strategic reassessment, DOD adjusted its approach to reflect a more cautious, deliberate process that involved more stakeholders, including OPM.

Many of the principles underlying the proposed NSPS regulations are generally consistent with proven approaches to strategic human capital management. For instance, the proposed regulations provide for (1) elements of a flexible and contemporary human resources management system—such as pay bands and pay for performance; (2) DOD to rightsize its workforce when implementing reduction-in-force orders by giving greater priority to employee performance in its retention decisions; and (3) continuing collaboration with employee representatives. (It should be noted that 10 federal labor unions have filed suit alleging that DOD failed to abide by the statutory requirements to include employee representatives in the development of DOD's new labor relations system authorized as part of NSPS.)

GAO has three primary areas of concern: the proposed regulations do not (1) define the details of the implementation of the system, including such issues as adequate safeguards to help ensure fairness and guard against abuse; (2) require, as GAO believes they should, the use of core competencies to communicate to employees what is expected of them on the job; and (3) identify a process for the continuing involvement of employees in the planning, development, and implementation of NSPS.

Going forward, GAO believes that (1) the development of the position of Deputy Secretary of Defense for Management, who would act as DOD's Chief Management Officer, is essential to elevate, integrate, and institutionalize responsibility for the success of DOD's overall business transformation efforts, including its new human resources management system; (2) DOD would benefit if it develops a comprehensive communications strategy that provides for ongoing, meaningful two-way communication that creates shared expectations among employees, employee representatives, and stakeholders; and (3) DOD must ensure that it has the institutional infrastructure in place to make effective use of its new authorities before they are operationalized.

GAO strongly supports the concept of modernizing federal human capital policies, including providing reasonable flexibility. There is general recognition that the federal government needs a framework to guide human capital reform. Such a framework would consist of a set of values, principles, processes, and safeguards that would provide consistency across the federal government but be adaptable to agencies' diverse missions, cultures, and workforces.


**GAO**  
 Accountability • Integrity • Reliability  
**Highlights**

Highlights of [GAO-04-753](#), a report to the Ranking Minority Member, Subcommittee on Readiness, Committee on Armed Services, House of Representatives

## Why GAO Did This Study

During its downsizing in the early 1990s, the Department of Defense (DOD) did not focus on strategically reshaping its civilian workforce. GAO was asked to address DOD's efforts to strategically plan for its future civilian workforce at the Office of the Secretary of Defense (OSD), the military services' headquarters, and the Defense Logistics Agency (DLA). Specifically, GAO determined: (1) the extent to which civilian strategic workforce plans have been developed and implemented to address future civilian workforce requirements, and (2) the major challenges affecting the development and implementation of these plans.

## What GAO Recommends

GAO recommends that DOD and the components include certain key elements in their civilian strategic workforce plans to guide their human capital efforts. DOD concurred with one of our recommendations, and partially concurred with two others because it believes that the department has undertaken analyses of critical skills gaps and are using strategies and personnel flexibilities to fill identified skills gaps. We cannot verify DOD's statement because DOD was unable to provide the gap analyses. In addition, we found that the strategies being used by the department have not been derived from analyses of gaps between the current and future critical skills and competencies needed by the workforce.

[www.gao.gov/cgi-bin/getrpt?-GAO-04-753](http://www.gao.gov/cgi-bin/getrpt?-GAO-04-753).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Derek Stewart at (202) 512-5559 or [stewartd@gao.gov](mailto:stewartd@gao.gov).

# DOD CIVILIAN PERSONNEL

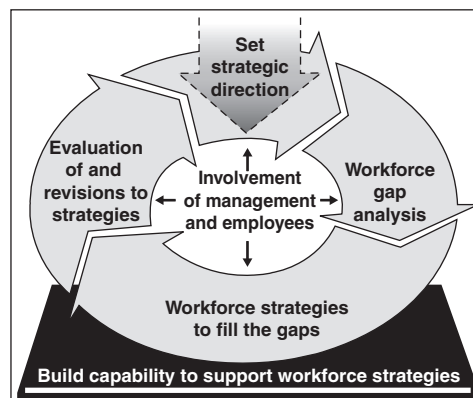
## Comprehensive Strategic Workforce Plans Needed

### What GAO Found

OSD, the service headquarters, and DLA have recently taken steps to develop and implement civilian strategic workforce plans to address future civilian workforce needs, but these plans generally lack some key elements essential to successful workforce planning. As a result, OSD, the military services' headquarters, and DLA—herein referred to as DOD and the components—do not have comprehensive strategic workforce plans to guide their human capital efforts. None of the plans included analyses of the gaps between critical skills and competencies (a set of behaviors that are critical to work accomplishment) currently needed by the workforce and those that will be needed in the future. Without including gap analyses, DOD and the components may not be able to effectively design strategies to hire, develop, and retain the best possible workforce. Furthermore, none of the plans contained results-oriented performance measures that could provide the data necessary to assess the outcomes of civilian human capital initiatives.

The major challenge that DOD and most of the components face in their efforts to develop and implement strategic workforce plans is their need for information on current competencies and those that will likely be needed in the future. This problem results from DOD's and the components' not having developed tools to collect and/or store, and manage data on workforce competencies. Without this information, it not clear whether they are designing and funding workforce strategies that will effectively shape their civilian workforces with the appropriate competencies needed to accomplish future DOD missions. Senior department and component officials all acknowledged this shortfall and told us that they are taking steps to address this challenge. Though these are steps in the right direction, the lack of information on current competencies and future needs is a continuing problem that several organizations, including GAO, have previously identified.

### Strategic Workforce Planning Process



Source: GAO.



Highlights of [GAO-03-851T](#),  
testimony before the Committee on  
Governmental Affairs, United States  
Senate

## Why GAO Did This Study

People are at the heart of an organization's ability to perform its mission. Yet a key challenge for the Department of Defense (DOD), as for many federal agencies, is to strategically manage its human capital. DOD's proposed National Security Personnel System would provide for wide-ranging changes in DOD's civilian personnel pay and performance management and other human capital areas. Given the massive size of DOD, the proposal has important precedent-setting implications for federal human capital management.

This testimony provides GAO's observations on DOD human capital reform proposals and the need for governmentwide reform.

[www.gao.gov/cgi-bin/getrpt?GAO-03-851T](http://www.gao.gov/cgi-bin/getrpt?GAO-03-851T).

To view the full testimony, click on the link above. For more information, contact Derek Stewart at (202) 512-5559 or [stewartd@gao.gov](mailto:stewartd@gao.gov).

## HUMAN CAPITAL

# Building on DOD's Reform Effort to Foster Governmentwide Improvements

## What GAO Found

GAO strongly supports the need for government transformation and the concept of modernizing federal human capital policies both within DOD and for the federal government at large. The federal personnel system is clearly broken in critical respects—designed for a time and workforce of an earlier era and not able to meet the needs and challenges of today's rapidly changing and knowledge-based environment. The human capital authorities being considered for DOD have far-reaching implications for the way DOD is managed as well as significant precedent-setting implications for the rest of the federal government. GAO is pleased that as the Congress has reviewed DOD's legislative proposal it has added a number of important safeguards, including many along the lines GAO has been suggesting, that will help DOD maximize its chances of success in addressing its human capital challenges and minimize the risk of failure.

More generally, GAO believes that agency-specific human capital reforms should be enacted to the extent that the problems being addressed and the solutions offered are specific to a particular agency (e.g., military personnel reforms for DOD). Several of the proposed DOD reforms meet this test. In GAO's view, the relevant sections of the House's version of the National Defense Authorization Act for Fiscal Year 2004 and the proposal that is being considered as part of this hearing contain a number of important improvements over the initial DOD legislative proposal.

Moving forward, GAO believes it would be preferable to employ a governmentwide approach to address human capital issues and the need for certain flexibilities that have broad-based application and serious potential implications for the civil service system, in general, and the Office of Personnel Management, in particular. GAO believes that several of the reforms that DOD is proposing fall into this category (e.g., broad banding, pay for performance, re-employment and pension offset waivers). In these situations, GAO believes it would be both prudent and preferable for the Congress to provide such authorities governmentwide and ensure that appropriate performance management systems and safeguards are in place before the new authorities are implemented by the respective agency. Importantly, employing this approach is not intended to delay action on DOD's or any other individual agency's efforts, but rather to accelerate needed human capital reform throughout the federal government in a manner that ensures reasonable consistency on key principles within the overall civilian workforce. This approach also would help to maintain a level playing field among federal agencies in competing for talent and would help avoid further fragmentation within the civil service.



Highlights of [GAO-03-741T](#), testimony before the Committee on Armed Services, House of Representatives

## Why GAO Did This Study

DOD is in the midst of a major transformation effort including a number of initiatives to transform its forces and improve its business operations. DOD's legislative initiative would provide for major changes in civilian and military human capital management, make major adjustments in the DOD acquisition process, affect DOD's organization structure, and change DOD's reporting requirements to Congress, among other things.

DOD's proposed National Security Personnel System (NSPS) would provide for wide-ranging changes in DOD's civilian personnel pay and performance management, collective bargaining, rightsizing, and a variety of other human capital areas. The NSPS would enable DOD to develop and implement a consistent DOD-wide civilian personnel system.

This testimony provides GAO's preliminary observations on aspects of DOD's legislative proposal to make changes to its civilian personnel system and discusses the implications of such changes for governmentwide human capital reform. This testimony summarizes many of the issues discussed in detail before the Subcommittee on Civil Service and Agency Organization, Committee on Government Reform, House of Representatives on April 29, 2003.

[www.gao.gov/cgi-bin/getrpt?GAO-03-741T](http://www.gao.gov/cgi-bin/getrpt?GAO-03-741T).

To view the full testimony, click on the link above. For more information, contact Derek Stewart at (202) 512-5559 or [stewardd@gao.gov](mailto:stewardd@gao.gov).

## DEFENSE TRANSFORMATION

# DOD's Proposed Civilian Personnel System and Governmentwide Human Capital Reform

## What GAO Found

Many of the basic principles underlying DOD's civilian human capital proposal have merit and deserve serious consideration. The federal personnel system is clearly broken in critical respects—designed for a time and workforce of an earlier era and not able to meet the needs and challenges of our current rapidly changing and knowledge-based environment. DOD's proposal recognizes that, as GAO has stated and the experiences of leading public sector organizations here and abroad have found, strategic human capital management must be the centerpiece of any serious government transformation effort.

More generally, from a conceptual standpoint, GAO strongly supports the need to expand broad banding and pay for performance-based systems in the federal government. However, moving too quickly or prematurely at DOD or elsewhere, can significantly raise the risk of doing it wrong. This could also serve to severely set back the legitimate need to move to a more performance- and results-based system for the federal government as a whole. Thus, while it is imperative that we take steps to better link employee pay and other personnel decisions to performance across the federal government, how it is done, when it is done, and the basis on which it is done, can make all the difference in whether or not we are successful. One key need is to modernize performance management systems in executive agencies so that they are capable of supporting more performance-based pay and other personnel decisions. Unfortunately, based on GAO's past work, most existing federal performance appraisal systems, including a vast majority of DOD's systems, are not currently designed to support a meaningful performance-based pay system.

The critical questions to consider are: should DOD and/or other agencies be granted broad-based exemptions from existing law, and if so, on what basis? Do DOD and other agencies have the institutional infrastructure in place to make effective use of any new authorities? This institutional infrastructure includes, at a minimum, a human capital planning process that integrates the agency's human capital policies, strategies, and programs with its program goals and mission, and desired outcomes; the capabilities to effectively develop and implement a new human capital system; and, importantly, a set of adequate safeguards, including reasonable transparency and appropriate accountability mechanisms to ensure the fair, effective, and credible implementation of a new system.

In GAO's view, as an alternative to DOD's proposed approach, Congress should consider providing governmentwide broad banding and pay for performance authorities that DOD and other federal agencies can use provided they can demonstrate that they have a performance management system in place that meets certain statutory standards, that can be certified to by a qualified and independent party, such as OPM, within prescribed timeframes. Congress should also consider establishing a governmentwide fund whereby agencies, based on a sound business case, could apply for funding to modernize their performance management systems and ensure that those systems have adequate safeguards to prevent abuse. This approach would serve as a positive step to promote high-performing organizations throughout the federal government while avoiding further human capital policy fragmentation.



Highlights of [GAO-03-717T](#), testimony before the Subcommittee on Civil Service and Agency Organization, Committee on Government Reform, House of Representatives

## Why GAO Did This Study

DOD is in the midst of a major transformation effort including a number of initiatives to transform its forces and improve its business operations. DOD's legislative initiative would provide for major changes in the civilian and military human capital management, make major adjustments in the DOD acquisition process, affect DOD's organization structure, and change DOD's reporting requirements to Congress, among other things.

DOD's proposed National Security Personnel System (NSPS) would provide for wide-ranging changes in DOD's civilian personnel pay and performance management, collective bargaining, rightsizing, and a variety of other human capital areas. The NSPS would enable DOD to develop and implement a consistent DOD-wide civilian personnel system.

This testimony provides GAO's preliminary observations on aspects of DOD's legislative proposal to make changes to its civilian personnel system and poses critical questions that need to be considered.

[www.gao.gov/cgi-bin/getrpt?GAO-03-717T](http://www.gao.gov/cgi-bin/getrpt?GAO-03-717T).

To view the full report, including the scope and methodology, click on the link above. For more information, contact Derek Stewart at (202) 512-5559 or [stewartd@gao.gov](mailto:stewartd@gao.gov).

## DEFENSE TRANSFORMATION

### Preliminary Observations on DOD's Proposed Civilian Personnel Reforms

#### What GAO Found

Many of the basic principles underlying DOD's civilian human capital proposals have merit and deserve serious consideration. The federal personnel system is clearly broken in critical respects—designed for a time and workforce of an earlier era and not able to meet the needs and challenges of our current rapidly changing and knowledge-based environment. DOD's proposal recognizes that, as GAO has stated and the experiences of leading public sector organizations here and abroad have found strategic human capital management must be the centerpiece of any serious government transformation effort.

More generally, from a conceptual standpoint, GAO strongly supports the need to expand broad banding and pay for performance-based systems in the federal government. However, moving too quickly or prematurely at DOD or elsewhere, can significantly raise the risk of doing it wrong. This could also serve to severely set back the legitimate need to move to a more performance and results-based system for the federal government as a whole. Thus, while it is imperative that we take steps to better link employee pay and other personnel decisions to performance across the federal government, how it is done, when it is done, and the basis on which it is done, can make all the difference in whether or not we are successful. In our view, one key need is to modernize performance management systems in executive agencies so that they are capable of supporting more performance-based pay and other personnel decisions. Unfortunately, based on GAO's past work, most existing federal performance appraisal systems, including a vast majority of DOD's systems, are not currently designed to support a meaningful performance-based pay system.

The critical questions to consider are: should DOD and/or other agencies be granted broad-based exemptions from existing law, and if so, on what basis; and whether they have the institutional infrastructure in place to make effective use of the new authorities. This institutional infrastructure includes, at a minimum, a human capital planning process that integrates the agency's human capital policies, strategies, and programs with its program goals and mission, and desired outcomes; the capabilities to effectively develop and implement a new human capital system; and, importantly, a set of adequate safeguards, including reasonable transparency and appropriate accountability mechanisms to ensure the fair, effective, and credible implementation of a new system.

In our view, Congress should consider providing governmentwide broad banding and pay for performance authorities that DOD and other federal agencies can use provided they can demonstrate that they have a performance management system in place that meets certain statutory standards, which can be certified to by a qualified and independent party, such as OPM, within prescribed timeframes. Congress should also consider establishing a governmentwide fund whereby agencies, based on a sound business case, could apply for funding to modernize their performance management systems and ensure that those systems have adequate safeguards to prevent abuse. This approach would serve as a positive step to promote high-performing organizations throughout the federal government while avoiding fragmentation within the executive branch in the critical human capital area.



Highlights of [GAO-03-493T](#), a testimony before the Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia, Senate Committee on Governmental Affairs

## Why GAO Did This Study

People are at the heart of an organization's ability to perform its mission. Yet, a key challenge for the Department of Defense (DOD), as for many federal agencies, is to strategically manage its human capital. With about 700,000 civilian employees on its payroll, DOD is the second largest federal employer of civilians in the nation. Although downsized 38 percent between fiscal years 1989 and 2002, this workforce has taken on greater roles as a result of DOD's restructuring and transformation. DOD's proposed National Security Personnel System (NSPS) would provide for wide-ranging changes in DOD's civilian personnel pay and performance management, collective bargaining, rightsizing, and other human capital areas. The NSPS would enable DOD to develop and implement a consistent DOD-wide civilian personnel system. Given the massive size of DOD, the proposal has important precedent-setting implications for federal human capital management and OPM.

This testimony provides GAO's preliminary observations on aspects of DOD's proposal to make changes to its civilian personnel system and discusses the implications of such changes for governmentwide human capital reform. Past reports have contained GAO's views on what remains to be done to bring about lasting solutions for DOD to strategically manage its human capital. DOD has not always concurred with our recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-03-493T](http://www.gao.gov/cgi-bin/getrpt?GAO-03-493T). To view the full testimony, including the scope and methodology, click on the link above. For more information, contact Derek B. Stewart at (202) 512-5140 or [Stewartd@gao.gov](mailto:Stewartd@gao.gov).

## HUMAN CAPITAL

# DOD'S CIVILIAN PERSONNEL STRATEGIC MANAGEMENT AND THE PROPOSED NATIONAL SECURITY PERSONNEL SYSTEM

## What GAO Found

DOD's lack of attention to force shaping during its downsizing in the early 1990s has resulted in a workforce that is not balanced by age or experience and that puts at risk the orderly transfer of institutional knowledge. Human capital challenges are severe in certain areas. For example, DOD has downsized its acquisition workforce by almost half. More than 50 percent of the workforce will be eligible to retire by 2005. In addition, DOD faces major succession planning challenges at various levels within the department. Also, since 1987, the industrial workforce, such as depot maintenance, has been reduced by about 56 percent, with many of the remaining employees nearing retirement, calling into question the longer-term viability of the workforce. DOD is one of the agencies that has begun to address human capital challenges through strategic human capital planning. For example, in April 2002, DOD published a department wide strategic plan for civilians. Although a positive step toward fostering a more strategic approach toward human capital management, the plan is not fully aligned with the overall mission of the department or results oriented. In addition, it was not integrated with the military and contractor personnel planning.

We strongly support the concept of modernizing federal human capital policies within DOD and the federal government at large. Providing reasonable flexibility to management in this critical area is appropriate provided adequate safeguards are in place to prevent abuse. We believe that Congress should consider both governmentwide and selected agency, including DOD, changes to address the pressing human capital issues confronting the federal government. In this regard, many of the basic principles underlying DOD's civilian human capital proposals have merit and deserve serious consideration. At the same time, many are not unique to DOD and deserve broader consideration.

Agency-specific human capital reforms should be enacted to the extent that the problems being addressed and the solutions offered are specific to a particular agency (e.g., military personnel reforms for DOD). Several of the proposed DOD reforms meet this test. At the same time, we believe that Congress should consider incorporating additional safeguards in connection with several of DOD's proposed reforms. In our view, it would be preferable to employ a government-wide approach to address certain flexibilities that have broad-based application and serious potential implications for the civil service system, in general, and the Office of Personnel Management (OPM), in particular. We believe that several of the reforms that DOD is proposing fall into this category (e.g., broad-banding, pay for performance, re-employment and pension offset waivers). In these situations, it may be prudent and preferable for the Congress to provide such authorities on a governmentwide basis and in a manner that assures that appropriate performance management systems and safeguards are in place before the new authorities are implemented by the respective agency.

However, in all cases whether from a governmentwide authority or agency specific legislation, in our view, such additional authorities should be implemented (or operationalized) only when an agency has the institutional infrastructure in place to make effective use of the new authorities. Based on our experience, while the DOD leadership has the intent and the ability to implement the needed infrastructure, it is not consistently in place within the vast majority of DOD at the present time. \_\_\_\_\_ United States General Accounting Office





Highlights of [GAO-03-475](#), a report to the Ranking Minority Member, Subcommittee on Readiness, House Committee on Armed Services

## Why GAO Did This Study

The Department of Defense's (DOD) civilian employees play key roles in such areas as defense policy, intelligence, finance, acquisitions, and weapon systems maintenance. Although downsized 38 percent between fiscal years 1989 and 2002, this workforce has taken on greater roles as a result of DOD's restructuring and transformation. Responding to congressional concerns about the quality and quantity of, and the strategic planning for the civilian workforce, GAO determined the following for DOD, the military services, and selected defense agencies: (1) the extent of top-level leadership involvement in civilian strategic planning; (2) whether elements in civilian strategic plans are aligned to the overall mission, focused on results, and based on current and future civilian workforce data; and (3) whether civilian and military personnel strategic plans or sourcing initiatives were integrated.

## What GAO Recommends

GAO recommends DOD improve the departmentwide plan to be mission aligned and results-oriented; provide guidance to align component- and department-level human capital strategic plans; develop data on future civilian workforce needs; and set milestones for integrating military and civilian workforce plans, taking contractors into consideration. DOD comments were too late to include in this report but are included in [GAO-03-690R](#).

[www.gao.gov/cgi-bin/getrpt?GAO-03-475](http://www.gao.gov/cgi-bin/getrpt?GAO-03-475).

To view the full report, including the scope and methodology, click on the link above. For more information, contact Derek B. Stewart at (202) 512-5559 or [stewartd@gao.gov](mailto:stewartd@gao.gov).

## DOD PERSONNEL

# DOD Actions Needed to Strengthen Civilian Human Capital Strategic Planning and Integration with Military Personnel and Sourcing Decisions

## What GAO Found

Generally, civilian personnel issues appear to be an emerging priority among top leaders in DOD and the defense components. Although DOD began downsizing its civilian workforce more than a decade ago, it did not take action to strategically address challenges affecting the civilian workforce until it issued its civilian human capital strategic plan in April 2002. Top-level leaders in the Air Force, the Marine Corps, the Defense Contract Management Agency, and the Defense Finance Accounting Service have initiated planning efforts and are working in partnership with their civilian human capital professionals to develop and implement civilian strategic plans; such leadership, however, was increasing in the Army and not as evident in the Navy. Also, DOD has not provided guidance on how to integrate the components' plans with the department-level plan. High-level leadership is critical to directing reforms and obtaining resources for successful implementation.

The human capital strategic plans GAO reviewed for the most part lacked key elements found in fully developed plans. Most of the civilian human capital goals, objectives, and initiatives were not explicitly aligned with the overarching missions of the organizations. Consequently, DOD and the components cannot be sure that strategic goals are properly focused on mission achievement. Also, none of the plans contained results-oriented performance measures to assess the impact of their civilian human capital initiatives (i.e., programs, policies, and processes). Thus, DOD and the components cannot gauge the extent to which their human capital initiatives contribute to achieving their organizations' mission. Finally, the plans did not contain data on the skills and competencies needed to successfully accomplish future missions; therefore, DOD and the components risk not being able to put the right people, in the right place, and at the right time, which can result in diminished accomplishment of the overall defense mission.

Moreover, the civilian strategic plans did not address how the civilian workforce will be integrated with their military counterparts or sourcing initiatives. DOD's three human capital strategic plans—two military and one civilian—were prepared separately and were not integrated to form a seamless and comprehensive strategy and did not address how DOD plans to link its human capital initiatives with its sourcing plans, such as efforts to outsource non-core responsibilities. The components' civilian plans acknowledge a need to integrate planning for civilian and military personnel—taking into consideration contractors—but have not yet done so. Without an integrated strategy, DOD may not effectively and efficiently allocate its scarce resources for optimal readiness.



# DOD CIVILIAN PERSONNEL

## Improved Strategic Planning Needed to Help Ensure Viability of DOD's Civilian Industrial Workforce

Highlights of [GAO-03-472](#), a report to the Subcommittee on Readiness, Committee on Armed Services, House of Representatives

### Why GAO Did This Study

Between 1987 and 2002, the Department of Defense (DOD) downsized the civilian workforce in 27 key industrial facilities by about 56 percent. Many of the remaining 72,000 workers are nearing retirement. In recent years GAO has identified shortcomings in DOD's strategic planning and was asked to determine (1) whether DOD has implemented our prior recommendation to develop and implement a depot maintenance strategic plan, (2) the extent to which the services have developed and implemented comprehensive strategic workforce plans, and (3) what challenges adversely affect DOD's workforce planning.

### What GAO Recommends

GAO recommends that the DOD complete revisions to core policy, promulgate a schedule for completing core computations, and complete depot strategic planning; develop a plan for arsenals and ammunition plants; develop strategic workforce plans; and coordinate the implementation of initiatives to address various workforce challenges. DOD concurred with 7 of our 9 recommendations; nonconcurring with two because it believes the proposed National Security Personnel System, which was submitted to Congress as a part of the DOD transformation legislation, will take care of these problems. We believe it is premature to assume this system will (1) be approved by Congress as proposed and (2) resolve these issues.

[www.gao.gov/cgi-bin/getrpt?GAO-03-472](http://www.gao.gov/cgi-bin/getrpt?GAO-03-472).

To view the full report, including the scope and methodology, click on the link above. For more information, contact Derek Stewart at (202) 512-5559 or [stewartd@gao.gov](mailto:stewartd@gao.gov).

### What GAO Found

DOD has not implemented our October 2001 recommendation to develop and implement a DOD depot strategic plan that would delineate workloads to be accomplished in each of the services' depots. The DOD depot system has been a key part of the department's plan to support military systems in the past, but the increased use of the private sector to perform this work has decreased the role of these activities. While title 10 of the U.S. code requires DOD to retain core capability and also requires that at least 50 percent of depot maintenance funds be spent for public-sector performance, questions remain about the future role of DOD depots. Absent a DOD depot strategic plan, the services have in varying degrees, laid out a framework for strategic depot planning, but this planning is not comprehensive. Questions also remain about the future of arsenals and ammunition plants. GAO reviewed workforce planning efforts for 22 maintenance depots, 3 arsenals, and 2 ammunition plants, which employed about 72,000 civilian workers in fiscal year 2002.

The services have not developed and implemented strategic workforce plans to position the civilian workforce in DOD industrial activities to meet future requirements. While workforce planning is done for each of the industrial activities, generally it is short-term rather than strategic. Further, workforce planning is lacking in other areas that OPM guidance and high-performing organizations identify as key to successful workforce planning. Service workforce planning efforts (1) usually do not assess the competencies; (2) do not develop comprehensive retention plans; and (3) sometimes do not develop performance measures and evaluate workforce plans.

Several challenges adversely affect DOD's workforce planning for the viability of its civilian depot workforce. First, given the aging depot workforce and the retirement eligibility of over 40 percent of the workforce over the next 5 to 7 years, the services may have difficulty maintaining the depots' viability. Second, the services are having difficulty implementing multiskilling—an industry and government best practice for improving the flexibility and productivity of the workforce—even though this technique could help depot planners do more with fewer employees. Finally, increased training funding and innovation in the training program will be essential for revitalizing the aging depot workforce.

**Staffing Levels, Age, and Retirement Eligibility of Civilian Personnel in Industrial Facilities**

Service	FY 2002 civilian staffing levels	Average age	Percent eligible to retire by 2007	Percent eligible to retire by 2009
Navy	35,563	46	28	39
Army	14,234	49	41	52
Marine Corps	1,323	48	45	60
Air Force	21,152	47	35	44
Total	72,272	47	33	43

Source: DOD (data), GAO (presentation).

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