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HUMAN CAPITAL

Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces



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Highlights of GAO-03-2, a report to the Senate Committee on Governmental Affairs and to its Subcommittees on International Security, Proliferation, and Federal Services and on Oversight of Government Management, Restructuring, and the District of Columbia

Why GAO Did This Study

An essential element to acquiring, developing, and retaining high-quality federal employees is agencies' effective use of human capital flexibilities. These flexibilities represent the policies and practices that an agency has the authority to implement in managing its workforce.

Congressional requesters asked GAO to provide information on agency and union officials' views about the most effective human capital flexibilities, additional flexibilities needed, and whether additional flexibilities could be implemented while also protecting employees' rights. GAO was also asked to identify key practices for effective use of flexibilities.

GAO interviewed the human resources directors of the federal government's 24 largest departments and agencies, and representatives of 4 national organizations representing federal employees and managers. GAO further focused its efforts on 7 federal agencies—Department of the Air Force, General Services Administration, Internal Revenue Service, International Trade Administration, U.S. Mint, State Department, and Veterans Benefits Administration—interviewing more than 200 managers, supervisors, human resources officials, and union representatives in headquarters and field locations.

What GAO Found

Agency and union officials' views on human capital flexibilities.

Most effective flexibilities. Existing flexibilities that are most effective in managing the workforce are work-life programs, such as alternative work schedules, child care assistance, and transit subsidies; monetary recruitment and retention incentives, such as recruitment bonuses and retention allowances; special hiring authorities, such as student employment and outstanding scholar programs; and incentive awards for notable job performance and contributions, such as cash and time-off awards.

Additional flexibilities needed. Additional flexibilities that would be helpful in managing the workforce include more flexible pay approaches to compensate federal employees, greater flexibility to streamline and improve the federal hiring process, increased flexibility in addressing employees' poor job performance, additional workforce restructuring options, and expanded flexibility in acquiring and retaining temporary employees.

Protection of employee rights. Managers, supervisors, and human resources officials generally believed that additional human capital flexibilities could be implemented in their agencies while also protecting employees' rights. Union representatives, however, gave mixed views ranging from the opinion that additional flexibilities could be implemented while still protecting employee rights to concerns that managers would abuse their authority.

Key practices for effective use of human capital flexibilities. GAO identified six key practices for the effective use of human capital flexibilities. These practices are (1) planning strategically and making targeted investments, (2) ensuring stakeholder input in developing policies and procedures, (3) educating managers and employees on the availability and use of flexibilities, (4) streamlining administrative processes, (5) building transparency and accountability into the system, and (6) changing the organizational culture.

The insufficient and ineffective use of flexibilities can significantly hinder the ability of federal agencies to recruit, hire, retain, and manage their human capital. Congress recently debated the extent of personnel flexibilities that should be granted to the new Department of Homeland Security. While this decision was important to how the department will operate, how personnel flexibilities are implemented is equally important.

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Abbreviations

AFMC	Air Force Materiel Command
CPDF	Central Personnel Data File
CPMIS	Civilian Personnel Management Improvement Strategy
GS	General Schedule
GSA	General Services Administration
IRM	Information Resource Management
IRS	Internal Revenue Service
ITA	International Trade Administration
MSPB	Merit Systems Protection Board
NAPA	National Academy of Public Administration
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PBO	performance-based organization
PBS	Public Buildings Service
QSI	quality step increase
SQA	superior qualifications appointment
VA	Department of Veterans Affairs
VBA	Veterans Benefits Administration
VEOA	Veterans Employment Opportunities Act
VRA	Veterans Readjustment Appointment



United States General Accounting Office
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December 6, 2002

The Honorable Joseph I. Lieberman
Chairman
The Honorable Fred Thompson
Ranking Minority Member
Committee on Governmental Affairs
United States Senate

The Honorable Daniel K. Akaka
Chairman
The Honorable Thad Cochran
Ranking Minority Member
Subcommittee on International Security,
Proliferation, and Federal Services
Committee on Governmental Affairs
United States Senate

The Honorable Richard J. Durbin
Chairman
The Honorable George V. Voinovich
Ranking Minority Member
Subcommittee on Oversight of Government
Management, Restructuring, and the
District of Columbia
Committee on Governmental Affairs
United States Senate

For years, many observers have viewed the federal civil service as over-regulated and inflexible. At the same time, federal agencies are experiencing pervasive human capital challenges in acquiring and developing staffs to meet current and emerging agency needs. These types of challenges are likely to go unresolved if agencies do not take steps to ensure that they have sufficient numbers of people in place with the right skills, tools, and incentives to get the job done right. To deal with these challenges, agencies need effective human capital flexibilities to assist them. The recent deliberations over human capital flexibilities for the new Department of Homeland Security underscore the importance of ensuring that agencies have the capabilities needed to effectively achieve their missions and manage their people.

In broad terms, human capital flexibilities represent the policies and practices that an agency has the authority to implement in managing its workforce to accomplish its mission and achieve its goals. These flexibilities can include actions related to areas such as recruitment, retention, compensation, position classification, incentive awards and recognition, training and development, performance management and appraisals, realignment and reorganization, and work arrangements and work-life policies. The tailored use of such flexibilities for acquiring, developing, and retaining talent is an important cornerstone of our model of strategic human capital management, which we recently released to assist in transforming agencies so they become more results-oriented, integrated, and externally focused.¹

In previous reports and testimonies,² we have emphasized that in addressing their human capital challenges, federal agencies should first identify and use the flexibilities already available under existing laws and regulations and then seek additional flexibilities only when necessary and based on sound business cases. In this regard, as agreed with your offices, this report provides information on

- agency officials' and union representatives' views on (1) the most effective flexibilities for managing their workforces, (2) additional flexibilities that would be the most helpful in managing their workforces, and (3) whether employee rights could be protected if additional flexibilities were authorized and implemented within agencies and
- key practices that agencies should implement for effective use of human capital flexibilities, along with specific examples of such practices from selected agencies.

We were also asked to identify actions that the Office of Personnel Management (OPM) could take to facilitate the effective use of human capital flexibilities throughout the federal government. We will be discussing that issue in a separate report to be issued soon.

¹U.S. General Accounting Office, *A Model of Strategic Human Capital Management, Exposure Draft*, [GAO-02-373SP](#) (Washington, D.C.: Mar. 15, 2002).

²U.S. General Accounting Office, *High-Risk Series: An Update*, [GAO-01-263](#) (Washington, D.C.: January 2001); and *Human Capital: Meeting the Governmentwide High-Risk Challenge*, [GAO-01-357T](#) (Washington, D.C.: Feb. 1, 2001).

To address these issues, we reviewed relevant reports and interviewed cognizant officials from OPM, the Merit Systems Protection Board (MSPB), and the National Academy of Public Administration (NAPA). In addition, we interviewed the human resources directors of the federal government's 24 largest departments and agencies and representatives from four national organizations representing federal employees and managers. As agreed, we further focused our review on seven federal agencies: the Department of the Air Force, General Services Administration (GSA), Internal Revenue Service (IRS), International Trade Administration (ITA), U.S. Mint (Mint), Department of State (State), and Veterans Benefits Administration (VBA). At the headquarters and various field locations of the seven agencies, we collected documents on their use of human capital flexibilities and interviewed over 200 managers and supervisors, human resources officials, and union representatives. We selected the seven agencies for various reasons, including their variety of existing human capital challenges and their range in usage of available human capital flexibilities. Our agency selection process was not designed to identify examples that could be considered representative of all the human capital flexibilities used at the seven agencies reviewed or the federal government as a whole. We conducted our review in accordance with generally accepted government auditing standards. (See app. I for additional information on our objectives, scope, and methodology.)

Results in Brief

According to the agency officials and union representatives we interviewed, work-life policies and programs, such as alternative and flexible work schedules, transit subsidies, child care assistance, and employee assistance programs, are among the most effective human capital flexibilities available in federal agencies for managing the workforce to achieve agency missions and accomplish agency goals. These flexibilities are effective because they serve as important recruitment and retention tools as employees weigh the balance between their work life and leisure time. In addition, agency and union officials frequently cited the effectiveness of monetary recruitment and retention incentives, including recruitment and relocation bonuses for hard-to-fill positions; special hiring authorities, such as student employment and outstanding scholar programs; and incentive awards to employees for superior job performance and specific accomplishments, including cash and time-off awards.

Although agencies' first priority should be to improve their human capital management by using the authorities already available to them, we identified five categories of additional human capital flexibilities that

agency officials and union representatives cited as most helpful if authorized for their agencies. These additional authorities include (1) more flexible pay approaches, (2) greater flexibility to streamline and improve the federal hiring process, (3) increased flexibility in addressing employees' poor job performance, (4) additional workforce restructuring options, and (5) expanded flexibility in acquiring and retaining temporary employees. These suggestions by agency officials and union representatives provide a starting point for executive branch decision makers and Congress to consider as they seek to reform federal human capital policies and practices. Key aspects of these additional authorities are included in various legislative initiatives under consideration by Congress. In other cases, however, additional analysis may be needed to ensure that any new authorities are granted and implemented consistent with a focus on program results, merit, and other important federal employment goals.

The agency managers and supervisors and human resources officials we interviewed generally agreed that additional human capital flexibilities could be authorized and implemented in their agencies while also ensuring protection of employees' rights. Union representatives, however, expressed a variety of opinions on the ability of agencies to protect employee rights. Some believed that employee rights could be protected with additional managerial flexibility, while others were concerned that managers would abuse their authority and agency leaders would not take appropriate disciplinary action. According to agency and union officials, one of the most effective ways to ensure protection of employees' rights when implementing these flexibilities is to make certain that supervisors and employees are fully aware of the available flexibilities, the procedures to use them, and the associated rights and responsibilities of both managers and employees when using them. In addition, they frequently mentioned the importance of securing the assistance and support of agency human resources officials in implementing and monitoring the use of flexibilities within the agency.

Based on our interviews with human resources directors from across the federal government and our previous human capital work, we identified six key practices that agencies should implement to use human capital flexibilities effectively. Figure 1 identifies the practices and provides some examples from the seven federal agencies we reviewed.

Figure 1: Key Practices for Effective Use of Human Capital Flexibilities

- **Plan strategically and make targeted investments.** Agencies need to ensure that the use of flexibilities is part of an overall human capital strategy clearly linked to the program goals of the organization. Agencies also need a sound plan for how they will use and fund the authorities. For example, the Air Force developed a series of initiatives that use flexibilities to recruit and retain civilian employees with high technical skills. The initiatives are accompanied by both funding and legislative strategies designed to promote succession planning while ensuring the resultant workforce is cost-effective.
- **Ensure stakeholder input in developing policies and procedures.** Agency leaders, managers, employees, and employee unions must work together and in a constructive and cooperative manner to effectively implement any flexibility in order to reach agreement on the need for change, the direction and scope that change will take, and how progress will be assessed. For example, employees at the Mint's San Francisco coin-making plant (with assistance from the local union) were able to vote on various options for implementing an alternative work schedule for the facility.
- **Educate managers and employees on the availability and use of flexibilities.** Agencies' human capital offices need to ensure that they have effective campaigns not only to inform managers of their personnel authorities, but also to explain the situations where the use of those authorities is appropriate. Agencies also need to inform employees about relevant policies and procedures and about employees' rights related to the use of these authorities. For example, GSA in Philadelphia educates its supervisors on human capital flexibilities with its Human Resource Solutions Series training, which includes topics such as performance management, position classification, and staffing.
- **Streamline and improve administrative processes.** Agencies should streamline administrative processes for using flexibilities and review self-imposed constraints that may be excessively process-oriented. For example, GSA automated its on-the-spot cash award process to allow supervisors to initiate these awards by accessing the agency's intranet Web site rather than the previous process of completing a lengthy justification and sending the form to the personnel office for review.
- **Build transparency and accountability into the system.** Agencies should delegate authority to use flexibilities to appropriate levels within the agency. Agencies must also develop clear and transparent guidelines for using flexibilities and then hold managers and supervisors accountable for their fair and effective use. For example, IRS developed guidelines for its managers to determine if a job applicant qualifies for a recruitment incentive, which helps to ensure fair and consistent application of such flexibilities. Agencies can also make public the extent to which the flexibilities are used and the results of the flexibilities. Finally, agencies' use of flexibilities should, as appropriate, be subject to internal and external evaluations.
- **Change the organizational culture.** Agencies need to address managers' and supervisors' concerns that employees will view the use of some flexibilities as unfair. Also, with appropriate accountability mechanisms in place, agencies can begin to foster an organizational culture that encourages managers to develop creative approaches and take appropriate risks. For example, IRS in Oakland hired a consultant to conduct training for managers that promotes creative thinking, empowerment for decision making, and prudent risk taking. The training course is an ongoing process with managers returning each year to ensure their continued comfort with and use of the principles covered in the training.

Source: Interviews with human resources directors and prior GAO work.

Agency and union officials identified several significant reasons why agencies have not made greater use of the human capital flexibilities that are available to them. These reported barriers that have hampered agencies in maximizing their use of available flexibilities included agencies' weak strategic human capital planning and inadequate funding for using these flexibilities given competing priorities; managers' and supervisors' lack of awareness and knowledge of the flexibilities; managers' and supervisors' belief that approval processes to use specific flexibilities are often burdensome and time-consuming; and managers' and supervisors'

concerns that employees will view the use of various flexibilities as inherently unfair, particularly given the common belief that all employees must be treated essentially the same regardless of job performance and agency needs.

The insufficient and ineffective use of flexibilities can significantly hinder the ability of federal agencies to recruit, hire, retain, and manage their human capital. To deal with their human capital challenges, it is important for agencies to assess and determine which human capital flexibilities are the most appropriate and effective for managing their workforces. Congress recently debated the extent of personnel flexibilities that should be granted to the new Department of Homeland Security. While this decision was important to how the new department will operate, how personnel flexibilities are implemented is equally important. Thus, to ensure more effective use of any human capital flexibility, it is critical that all agencies (1) plan strategically and make targeted investments, (2) ensure stakeholder input in developing policies and procedures, (3) educate managers and employees on the availability and use of flexibilities, (4) streamline and improve administrative processes, (5) build transparency and accountability into their systems, and (6) change their organizational cultures. By more effectively using flexibilities, agencies would be in a better position to manage their workforces, assure accountability, and transform their cultures to address current and emerging demands.

OPM and six of the seven selected agencies provided comments on a draft of this report. The agencies either generally agreed with the information presented or did not express an overall opinion about the report. OPM was pleased that our report acknowledges the need for greater personnel flexibilities in cases where existing law constrains OPM in providing policies and programs to assist agencies in accomplishing their missions. However, OPM commented that authorizing additional legislative flexibilities to agencies on a case-by-case basis could create an unfair competitive advantage for certain agencies. OPM also stressed in its comments that agencies should use the outstanding scholar hiring program as a supplement to competitive examining and not use the program as a general approach to circumvent the standard competitive hiring process. IRS commented that its recently acquired statutory flexibilities were instrumental to achieving the agency's transformation to a modern, business-like organization. The Department of Defense (Defense) and GSA suggested that our report more fully discuss the drawbacks of telecommuting. The Mint commented that the report provides an

objective, balanced review and assessment of the issues surrounding the implementation of human capital flexibilities and noted that the report would serve as a useful tool for policymakers. ITA commented that the report thoroughly and comprehensively addresses the critical issue of the programs needed to manage the federal workforce and emphasized the need for the additional flexibilities mentioned in the report. The Department of Veterans Affairs (VA) agreed with the information presented in the report and provided no additional comments. State did not provide comments on this report. Where appropriate, we made changes to the report to address the comments we received.

Background

Federal managers have complained for years about the rigid and elaborate procedures required for federal personnel administration, often expressing the need for more flexibility within a system that has traditionally been based on uniform rules. Reformers have long sought to decentralize the personnel system and simplify the rules, arguing that however well the system may have operated in the past, it is no longer suited to meet the needs of a changing and competitive world. In 1983, for example, NAPA published a report critical of the excessive constraints on federal managers, including constraints on their human resources decisions.³ As part of the response to these criticisms, OPM decentralized and delegated many personnel decisions to the agencies and has encouraged agencies to use human capital flexibilities to help tailor their personnel approaches to accomplish their unique missions. Our strategic human capital model also advocates that agencies develop a tailored approach to their use of available flexibilities by taking advantage of those flexibilities that are appropriate for their particular organizations and their mission accomplishment.⁴ Because of this tailoring, the federal personnel system is becoming more varied, despite its often-cited characterization as a “single employer.”

³National Academy of Public Administration, *Revitalizing Federal Management: Managers and Their Overburdened Systems* (Washington, D.C.: 1983).

⁴[GAO-02-373SP](#).

The trend toward increased flexibility has manifested itself a number of ways, including the efforts of some agencies to seek congressional approval to move away from the personnel provisions of Title 5 of the U.S. Code that have traditionally governed much of the federal government's civil service system.⁵ As noted by OPM in a 1998 report,⁶ federal agencies' status relative to these Title 5 personnel requirements can be better understood by thinking of them on a continuum. On one end of the continuum are federal agencies that generally must follow Title 5 personnel requirements. These agencies do not have the authority, for example, to establish their own pay systems. On the other end of the continuum are federal agencies that have more flexibility in that they are exempt from many Title 5 personnel requirements. For example, Congress provided the Tennessee Valley Authority and the Federal Reserve Board with broad authority to establish their own personnel systems and procedures. The movement in the direction of greater flexibility, in fact, has gained momentum to the extent that about half of federal civilian employees are now exempt from at least some of the personnel-related requirements of Title 5.

In addition to receiving congressional authorizations for exemptions from the personnel-related requirements of Title 5, other mechanisms are available to introduce human capital innovations and flexibilities within federal agencies. OPM has the authority to review and make changes to its existing regulations and guidance to provide agencies with additional flexibilities. Additionally, a federal agency can obtain authority from OPM to waive some existing federal human resources laws or regulations through a personnel demonstration project. The goal of these demonstration projects is to encourage experimentation in human resources management by allowing federal agencies to propose, develop, test, and evaluate changes to their own personnel systems. In some cases, Congress has allowed some agencies to adopt alternatives that have been tested and deemed successful. For example, more flexible pay approaches that were tested within the Department of the Navy's China Lake

⁵Title 5 laws (or requirements) refer to those personnel management laws, procedures, and associated functions generally applicable to federal employees. Most federal personnel laws governing topics such as classification, appointment, pay and benefits, and adverse action are contained in Title 5. Title 5 also contains laws unrelated to federal personnel issues, such as the Administrative Procedure Act and the Freedom of Information Act, that are also applicable to federal agencies.

⁶U.S. Office of Personnel Management, *HRM Policies and Practices in Title 5-Exempt Organizations* (Washington, D.C.: August 1998).

(California) demonstration project in the early 1980s were eventually adopted by other federal agencies, such as the Department of Commerce's National Institute of Standards and Technology.

Exemptions from Title 5 personnel requirements within our seven selected agencies help to illustrate the gradations of flexibility. IRS, for example, represents an agency with broad authority related to its human capital management. Efforts to reform IRS led to provisions under the IRS Restructuring and Reform Act of 1998, which gave the Secretary of the Treasury various pay and hiring flexibilities not otherwise available under Title 5, such as the authority to establish new systems for hiring and staffing, compensation, and performance management. State and ITA are examples of organizations in which some employees are not subject to Title 5, while the remainder of the organization is covered. In this case, Foreign Service employees at State and ITA are outside of Title 5. For the remaining four agencies we included in our review, the majority of their employees are covered under the personnel requirements of Title 5, with some limited exemptions. Air Force, for instance, has made use of flexibilities under the demonstration project authority and currently participates in two such demonstration projects, one involving laboratory personnel and another for the civilian acquisition workforce. In addition, several of our selected agencies, such as GSA and VBA, received additional flexibility through legislative authority to offer voluntary separation incentive payments, commonly known as buyouts, to help restructure their workforces. Figure 2 provides background information on the seven agencies along with a summary of some of their related exemptions from Title 5 personnel requirements.

Figure 2: Background Information on the Seven Selected Agencies with Examples of Exemptions from Title 5 Personnel Requirements

Department of the Air Force: The mission of the Air Force, a component of the Department of Defense, is to defend the United States and protect its interests through aerospace power. The Air Force employs over 150,000 civilians in a full range of occupations. Although the majority of civilians employed by the Air Force are subject to Title 5 requirements, Air Force Research Laboratory employees, for example, are involved in a demonstration project, which features a contribution-based compensation system.

General Services Administration: GSA is one of three central management agencies in the federal government. The agency's mission is to support federal employees wherever they work by, among other things, providing work space, furniture, equipment, supplies, tools, and travel services. GSA also oversees telecommuting centers and federal child care centers and preserves historic buildings. The agency employs approximately 14,000 people, the majority of whom are covered by Title 5. Congress authorized GSA to offer voluntary separation incentive payments to help shape its workforce.

Internal Revenue Service: IRS is a component of the Department of the Treasury. The agency's mission is to provide America's taxpayers with top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all. IRS employs approximately 100,000 full-time employees. Under the IRS Restructuring and Reform Act of 1998, the Secretary of the Treasury has pay and hiring flexibilities that are not generally available to Title 5 agencies. Some of these flexibilities are intended to allow IRS managers more discretion in rewarding good performers and in making employees accountable for their performance.

International Trade Administration: ITA is the lead unit for trade in the Department of Commerce. The agency promotes U.S. exports of manufactured goods, nonagricultural commodities, and services. It also participates in formulating and implementing U.S. foreign trade and economic policies and monitors market access and compliance of U.S. international trade agreements. ITA employs approximately 2,000 full-time employees. About 300 of these employees are Foreign Service employees, who are not subject to Title 5.

U.S. Mint: The U.S. Mint is a bureau within the Department of the Treasury. The primary mission of the agency is to produce an adequate volume of circulating coinage for the nation to conduct its trade and commerce. The Mint's workforce consists of approximately 2,600 employees with a wide mix of white-collar and blue-collar occupations. Of these employees, the rates of basic pay for positions within the police forces of the U.S. Mint are fixed without regard to the pay provisions of Title 5, except for minimum and maximum rates.

Department of State: State is the principal agency for advancing and protecting U.S. interests abroad by conducting U.S. foreign policy, and supporting and coordinating the activities of all other U.S. government agencies operating abroad. State has approximately 7,300 civil service employees and 9,400 Foreign Service employees.

Veterans Benefits Administration: The mission of VBA—an agency within the Department of Veterans Affairs—in partnership with the Veterans Health Administration and the National Cemetery Administration, is to provide benefits and services to veterans and their families in a responsive, timely, and compassionate manner in recognition of their service to the nation. VBA employs approximately 13,000 employees, the majority of whom are under Title 5. Like GSA, the agency received special legislative authority to provide voluntary separation incentive payments to help shape its workforce.

Source: Agency Web sites and planning documents.

Even under current Title 5 personnel provisions and their applicable regulations, efforts to reform and improve the personnel system have provided many human capital flexibilities for agencies to use. Within broad parameters, such as adherence to merit system principles⁷ and employee protection from prohibited personnel practices,⁸ these flexibilities offer the agencies effective ways to accomplish their missions while maintaining the key values of a centralized system. For example, agencies have many flexibilities available to help them restructure and realign their workforces. Moreover, agencies have numerous compensation flexibilities that authorize them to provide additional direct payments to support their recruitment, relocation, and retention efforts, although some of them may require the approval of OPM or the Office of Management and Budget (OMB).

Agency Officials and Union Representatives Cited Most Effective Human Capital Flexibilities

Today, federal agencies are facing many human capital challenges. With the increasing numbers of employees retiring and the numbers of employees who will be eligible to retire in the near future, along with competition from private companies, federal agencies are in a struggle to recruit and retain highly skilled employees. In response to these challenges, agencies need to use the various human capital flexibilities that are available to them in managing their workforces to achieve agency missions and accomplish goals.

Our discussions with agency officials and union representatives revealed numerous human capital flexibilities that they deemed effective in managing their workforces. These flexibilities encompassed broad areas of personnel-related actions such as recruitment, retention, compensation, position classification, incentive awards and recognition, training and development, performance management and appraisals, realignment and reorganization, and work arrangements and work-life policies. On the basis of these discussions, we identified the flexibilities that were the most

⁷Section 2301(b) of Title 5 of the U.S. Code stipulates that federal personnel management should be implemented consistent with merit system principles, including recruiting or promoting employees based on merit, retaining or separating employees based on performance, and protecting employees from improper influence.

⁸Section 2302(b) of Title 5 of the U.S. Code sets out personnel actions that may not be taken by any employee who can take, direct others to take, recommend, or approve any personnel actions; examples of prohibited personnel actions include discrimination, coercion of political activity, reprisal against whistleblowers, and nepotism.

frequently cited by agency and union officials as being the most effective for managing their agencies' workforces. These flexibilities include

- work-life programs, such as alternative work schedules, child care assistance, and transit subsidies;
- monetary recruitment and retention incentives, including retention and relocation bonuses and retention allowances;
- special hiring authorities, such as student employment and outstanding scholar programs; and
- incentive awards, which range from performance-based cash awards to time-off awards to symbolic items of nominal value, such as plaques and [T-shirts](#).

Table 1 provides a summary of these flexibilities and the cited benefits of implementing them.

Table 1: Human Capital Flexibilities That Agency Officials and Union Representatives Cited as Most Effective

Flexibility	Cited benefits of flexibility
<i>Work-life policies and programs:</i>	
Alternative work schedules	<ul style="list-style-type: none"> • Increase employee morale • Allow employees to be more flexible in accomplishing job responsibilities • Decrease need for employees to use accumulated leave
Employee assistance programs	<ul style="list-style-type: none"> • Assist agencies in addressing personnel issues that might be affecting agency operations • Help employees resolve problems that might be affecting personal health or job performance
Child care centers and assistance	<ul style="list-style-type: none"> • Help recruit skilled workers and retain valuable employees • Can aid lower paid employees with assistance • Increase productivity among users because centers often mean more reliable child care and fewer employee absences
Subsidized transportation	<ul style="list-style-type: none"> • Reduces congestion in transportation systems • Decreases smog in local commuting areas • Aids some employees in obtaining reliable transportation by subsidizing costs
Telecommuting	<ul style="list-style-type: none"> • Decreases employee stress and commuting costs • Helps to reduce traffic congestion and smog • Allows employees to be more productive by decreasing their commuting time
<i>Monetary recruitment and retention incentives:</i>	
Superior/special qualification appointments	<ul style="list-style-type: none"> • Allow agencies more control over entry-level salaries • Permit agencies to match the prior salaries of new hires coming from the private sector • Allow agencies to more easily hire employees with highly specialized skills in areas such as information technology and engineering
Recruitment bonuses	<ul style="list-style-type: none"> • Assist agencies in recruiting employees for hard-to-fill positions • Help agencies to retain employees for reasonable periods (i.e., written service agreement)
Relocation bonuses	<ul style="list-style-type: none"> • Assist agencies in relocating employees for hard-to-fill positions • Help agencies to retain employees for reasonable periods (i.e., written service agreement)

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Flexibility	Cited benefits of flexibility
Retention allowances	<ul style="list-style-type: none">• Assist agencies in retaining employees who possess unusually high or unique qualifications or who fill essential needs for the agencies• Allow agencies to terminate the incentive payments when no longer needed• Can be provided on a group basis to help agencies retain groups or categories of employees
<i>Special hiring authorities:</i>	
Student educational employment programs (i.e., “co-op” programs)	<ul style="list-style-type: none">• Allow agencies and student employees to test whether the students would be suitable matches for possible permanent employment• Allow agencies to quickly and easily hire needed staff who may be eligible for permanent positions with the agencies
Outstanding scholar program	<ul style="list-style-type: none">• Allows agencies to quickly hire high-quality entry-level employees (i.e., college graduates with superior academic credentials) in certain occupations
Veteran-related hiring authorities	<ul style="list-style-type: none">• Allow agencies to quickly hire needed talent• Allow veterans to apply for positions not generally open to nonfederal employees
<i>Incentive awards:</i>	
Performance- and accomplishment-based cash awards	<ul style="list-style-type: none">• Allow supervisors to recognize employees’ outstanding performance or accomplishment either at the end of performance appraisal periods or at a specific points in time for special acts or contributions• Can provide supervisors with autonomy to offer awards
Quality step increases	<ul style="list-style-type: none">• Allow agencies to provide permanent pay increases on the basis of outstanding performance as demonstrated in employees’ performance appraisals• Do not require agencies to conduct an annual review and approval to continue payments, as do retention allowances
Time-off awards	<ul style="list-style-type: none">• Allow employees to receive awards other than money• Allow employees to take time off from work when most convenient for agencies and employees
Group incentives (i.e., gainsharing and goalsharing)	<ul style="list-style-type: none">• Allow both agencies and employees to benefit from increases in productivity and decreases in costs• Allow both agencies and employees to benefit from the achievement of specified goals that enhance the success of the organization’s mission
Honorary and informal recognition awards	<ul style="list-style-type: none">• Give supervisors maximum flexibility to be creative in how they recognize their employees

Source: Agency and union officials interviewed.

Agency and Union Officials Cited Work-Life Programs among the Most Effective Flexibilities

Agency officials and union representatives cited work-life programs among the most effective flexibilities for recruiting, motivating, and retaining staff. These programs are offered to help employees balance their work and family lives and include alternative work schedules, employee assistance programs, child care centers and assistance, transit subsidies, and telecommuting options. OPM has strongly supported the use of these family-friendly programs, indicating that they can help to attract and retain quality employees, boost morale, and reduce unscheduled leave. Our recent report looking at human capital challenges at the Securities and Exchange Commission revealed how agencies can sometimes overlook the effectiveness of these work-life programs in recruiting, retaining, and motivating staff.⁹ The following is additional information about the effectiveness of these work-life flexibilities.

Alternative work schedules. Federal agencies generally have the authority to determine the hours of work for their employees to ensure that agencies meet organizational goals. Agencies may establish hours of work and scheduling flexibilities to replace the traditional schedules of 8 hours per day and 40 hours per week, such as full-time and part-time, overtime hours, and flexible work schedules. Scheduling flexibilities, such as alternative work schedules, were among the effective flexibilities most cited by agency managers and supervisors, human resources officials, and union representatives. Although some supervisors told us that such schedules can be a challenge to manage, these supervisors stated that this scheduling flexibility increases employee morale, strongly motivates employees, and allows employees to be more flexible in accomplishing job responsibilities. For example, IRS officials told us that the agency has made use of alternative work schedules since the early 1980s and that this flexibility is attractive to both current and potential employees. Supervisors at the San Francisco Mint said that the use of alternative work schedules reduces the amount of accumulated leave taken because employees can accomplish personal errands and tasks on their days off. According to human resources officials in GSA's San Francisco region, about 1,300 of the region's 1,500 employees make use of alternative work schedules.

Employee assistance programs. Through these programs, agencies can provide a range of free, confidential counseling and referral services to

⁹U.S. General Accounting Office, *Securities and Exchange Commission: Human Capital Challenges Require Management Attention*, GAO-01-947 (Washington, D.C.: Sept. 17, 2001).

assist employees who may be experiencing personal problems affecting their job performance or personal health. Agency and union officials said that these programs can be valuable in helping employees deal with issues such as work and family pressures. IRS supervisors in Philadelphia told us, for example, that IRS's employee assistance program offers employees and their family members a way to address both work-related and nonwork-related issues and that the employees they had referred to the program had found the services to be quite beneficial. Officials at Langley Air Force Base told us that both civilian and military personnel use the agency's employee assistance programs, which were designed to meet the needs of various employee groups.

Child development centers and child care assistance. Many federal agencies provide on-site or near-site child development centers to help employees with child care needs. Civilian federal agencies recently obtained authority through federal statute to use appropriated funds from salaries and expenses to assist their lower income employees with the cost of child care.¹⁰ Agencies can also assist their employees with information about other organizations that can help employees locate quality child care services. At some of the field locations we visited, agencies provided on-site or near-site child care for their employees. Agency and union officials said that this assistance greatly aids employees in focusing on their job responsibilities by providing more reliable child care, and that reliable child care often results in fewer employee absences. A national union representative pointed out that child care subsidies have allowed agencies to retain employees and save money because they do not have to train new staff members. According to OPM, there are approximately 1,000 work-site child care centers sponsored by civilian and military agencies in the federal government.

Transportation subsidies. In April 2000, an executive order was signed that required all federal agencies to implement a transportation fringe benefit program for their employees.¹¹ This transit subsidy program was designed to encourage federal employees to use mass transportation for commuting to and from work to reduce traffic congestion and air pollution. Federal agencies in the national capital region were required to implement a "transit pass" program by providing eligible employees with subsidies in

¹⁰Public Law 107-67, Nov. 12, 2001.

¹¹Executive Order 13150, signed Apr. 21, 2000.

the form of subway farecards. Agencies generally have the flexibility to make this program available to their employees nationwide and can provide employees with transit passes of up to \$100 per month for each employee who uses public or vanpool transportation. Many supervisors and union representatives we interviewed said that this transit subsidy is highly valued by employees. Officials in the San Francisco Bay Area made particular note of the benefits of using public transportation given the traffic congestion in the area.

Telecommuting Cited as Beneficial in Certain Cases, but Some Doubted Its Effectiveness and Stressed the Need for Careful Management

While many agency managers and supervisors, human resources officials, and union representatives supported the effectiveness of work-life programs, our discussions of telecommuting with these officials brought about strongly mixed opinions. Telecommuting, also referred to as telework or flexiplace, involves work arrangements that allow an employee to work away from the traditional work site, either at home or at another approved location. Often cited potential benefits for agencies to establish telecommuting programs include improved recruiting and retention of employees, increased productivity, and a reduced need for office space. Cited reasons for employees to participate in such programs include the opportunity to reduce commuting time; lowered personal costs in areas such as transportation, parking, food, and wardrobe; and improvement in the quality of work-life and morale because they are able to balance work and family demands. An MSPB survey conducted in 2000 found that 47 percent of federal employees considered telecommuting important to them personally and that 20 percent had it available to them.¹²

¹²U.S. Merit Systems Protection Board, *Issues of Merit* (Washington, D.C.: December 2000), p. 4.

Several managers and supervisors we interviewed, however, said that telecommuting has not been shown to increase employee productivity, and that it is often complicated to manage an employee who is working “out of sight.” According to these agency officials, in many cases it is more difficult to judge the quality of the employee’s work in a telecommuting environment, while in other cases the quality of the work can decline if the employee is not mature in using this flexibility. In addition, with telecommuting, the office often loses some sense of teamwork and continuity, and sometimes significant logistical obstacles must be overcome. Further, telecommuting is not practical for all occupations or situations. Yet, other agency managers and numerous union representatives said that telecommuting can be an effective flexibility if used appropriately. Union representatives at GSA in Philadelphia, for example, said that agency managers should focus on employee productivity and results rather than the need to simply observe the employee working. These views mirror those found in our 1997 report reviewing the use of telecommuting (i.e., flexiplace) in the federal government.¹³ During that review, agency officials and union representatives we interviewed cited management resistance as the largest barrier to implementing flexiplace programs. Agency officials had informed us that they had had some success in overcoming management resistance by training supervisors or by exposing them to telecommuting arrangements. At the request of the Chairman, Subcommittee on Technology and Procurement Policy, House Committee on Government Reform, we are undertaking an assessment of federal telecommuting policies and programs.

Agency and Union Officials Identified Monetary Recruitment and Retention Incentives as Highly Effective Flexibilities

Agency and union officials also cited monetary recruitment and retention incentives as highly effective in managing their agencies’ workforces. Agencies generally offer these types of monetary incentives to employees based on employee qualifications, special needs of the agencies, or difficulties in filling positions. These flexibilities include the following.

¹³U.S. General Accounting Office, *Federal Workforce: Agencies’ Policies and Views on Flexiplace in the Federal Government*, GAO/GGD-97-116 (Washington, D.C.: July 3, 1997).

Superior/special qualifications appointments. Using this flexibility, agencies can set base pay for newly appointed individuals above step 1 of the various grade levels based on the superior qualifications or highly specialized skills of the candidates or special needs of the agency. Agency officials said that this flexibility was especially effective because it allows agencies more control over entry-level salaries and permits agencies to match the prior salaries of new hires coming from the private sector. For example, IRS supervisors in Oakland told us that this hiring flexibility had helped their office in matching salaries of employees hired from the dot-com industry. GSA human resources officials in San Francisco said that this appointment authority had greatly assisted their office in hiring about 30 employees over the last 3 years. Officials from the Mint's headquarters information technology office said this pay incentive had helped in hiring highly skilled information security personnel at the GS-13 and GS-14 levels.¹⁴

Recruitment bonuses. A recruitment bonus is a lump-sum payment of up to 25 percent of basic pay that an agency may pay to an employee newly appointed to a position that would otherwise be difficult to fill. In return, the employee must sign an agreement to fulfill at least 6 months of service with the agency. A senior human resources manager at one department, for example, told us that her department had instituted over 1,000 recruitment bonuses (averaging about \$5,000 each) to attract new hires. She said that the department typically hired new employees only at the GS-7 level and thus relied on these recruitment bonuses to augment starting pay, particularly for hard-to-fill scientific and technical positions.

Relocation bonuses. A relocation bonus is a lump-sum payment of up to 25 percent of basic pay that an agency may pay to a current employee who must relocate to a position in a different commuting area that would otherwise be difficult to fill. In return, the employee must sign a service agreement with the agency. Another senior human resources manager, for example, told us that his agency uses relocation bonuses to assist certain employees who are required to move every 3 years to limit potential conflicts of interest in their sensitive positions. He said that without the

¹⁴The General Schedule (GS) is the basic classification and compensation system for white-collar occupations in the federal government as established by Title 5. Grades represent levels of difficulty, responsibility, and qualifications that are sufficiently similar to warrant their inclusion within one range of basic pay. Each grade includes 10 fixed rates of pay, called steps, through which employees advance.

relocation bonus, these employees would often lose money when they move, resulting in significant morale problems.

Retention allowances. A retention allowance is a continuing (i.e., biweekly) payment of up to 25 percent of basic pay that an agency may pay to help retain an employee. The agency must determine that (1) the unusually high or unique qualifications of the employee or a special need of the agency for the employee's services makes it essential to retain the employee and (2) the employee would be likely to leave the federal government in the absence of a retention allowance. In addition, an agency may offer retention allowances to a group or category of employees.¹⁵ Agencies must annually review and certify the allowances, which allows the agencies to terminate the incentive payments when no longer deemed necessary. One senior human resources manager told us, for example, that her department often uses retention allowances to help retain certain specialized employees who are frequently approached by recruiters from private industry and state governments.

Agencies Can Use Retention Allowances to Build Employee Competencies

Although agencies generally use retention allowances to retain highly qualified employees, State also uses this flexibility to build employee competencies. In 1998, when planning for its information technology requirements, State determined that it needed to address the difficulty of attracting and keeping the highly qualified technical workforce necessary to carry out its mission of providing support and coordinating the activities of all U.S. government agencies abroad. As such, it implemented a technology skills development program to attract and retain employees with certain technological skills by granting them retention allowances for obtaining job-related degrees and certifications. Under the program, State also paid for training courses leading up to certification but not the examinations to obtain the credentials.¹⁶

According to State, it has granted over \$4 million in total retention allowances under this skills development program. The number of

¹⁵Agencies generally have the authority to pay retention allowances up to 10 percent of basic pay to a group or category of employees. For group retention allowances in excess of 10 percent (but not more than 25 percent), agencies need to obtain OPM approval.

¹⁶A provision of the National Defense Authorization Act for 2002 provided agencies with discretionary authority to use appropriated funds or funds otherwise available to pay for employees' expenses to obtain professional credentials, including the examinations to obtain such credentials (5 U.S.C. 5757).

information technology employees with degrees or certifications increased from 133 in 1999 to 583 in 2001. As part of its evaluation of the skills development program, State surveyed the participants and supervisors involved in the program. Approximately 61 percent of the employees who participated in the program (335 out of 547) responded to the 2001 survey. The 2001 survey showed that 80 percent of the responding participants agreed that receiving the retention allowance played a substantial role in their decision to work at the department, and 90 percent agreed that receiving the allowance played a substantial role in their decision to remain at the department.

Special Hiring Authorities Were Also Noted to be Particularly Effective Flexibilities

Agency and union representatives frequently noted that special hiring authorities available to federal agencies can also be particularly effective in assisting agencies to appoint needed employees. These hiring authorities allow agencies to hire employees without going through the standard federal hiring process, often resulting, according to managers, in shorter hiring times, less onerous paperwork, and more flexibility in selecting the job candidates who managers believe are most qualified. These special hiring flexibilities include the following.

Student educational employment program. The student employment program allows agencies to appoint graduate, undergraduate, vocational, technical, associate degree, and professional degree seeking students who are enrolled or have been accepted for enrollment in at least a part-time schedule at an accredited institution. Some of these student employees are eligible to receive tuition assistance and, upon completion of their academic work, may be eligible for conversion to permanent jobs with the agency. A senior human resources manager at one department said that the student employment program allows agencies to develop professional relationships with students while they are still in school, which makes it easier to hire them when they are looking for permanent employment. GSA officials said they had hired 110 students under this program in the last 3 years and noted that the agency has done well at retaining these employees after they completed their academic work. Air Force officials told us that given the agency's downsizing environment of the past decade, the Air Force had only recently reestablished its student employment program but that the program has been successful in bringing in new employees who, thus far, tend to stay with the agency.

Outstanding scholar program. The outstanding scholar program supplements the standard competitive hiring process by allowing agencies to hire outstanding college graduates¹⁷ for certain entry-level occupations at grades GS-5 and GS-7. Agency officials we interviewed said that because agencies using the program are not required to rate and rank candidates for these positions, the hiring process can be shortened. For example, supervisors at GSA in Philadelphia told us that outstanding scholar hiring authority is beneficial because it allows the agency to hire more quickly. Although these and other agency officials strongly supported the use of this program, concerns have been raised by some about the degree of discretion this program provides in allowing agencies to circumvent the standard competitive hiring process. For example, in a January 2000 report, MSPB noted that the hiring authority under the outstanding scholar program was originally intended to be used as a short-term supplemental hiring tool.¹⁸ The program was established in 1981 in response to a civil lawsuit challenging the federal government's use of a written test for entry-level professional and administrative jobs because of that test's adverse impact on African-Americans and Hispanics.¹⁹ Although the program is aimed at addressing underrepresentation of African Americans and Hispanics, the program has never been restricted to those designated minority groups. In its report, MSPB recommended that this hiring authority be abolished and that merit-based hiring be restored to this group of federal jobs. In its comments on a draft of our report, OPM cautioned that although some agency officials we interviewed may have viewed this program as providing broad authority to use noncompetitive hiring procedures, agencies are to use this program only as a supplement to competitive examining. OPM stressed that agencies must have an established pattern of competitive selection into the covered occupations before agencies can use the program.

Veteran-related hiring authorities. During our review, several agency and union officials also noted the benefits of two veteran-focused hiring authorities. Veterans Readjustment Appointment (VRA) authority allows

¹⁷To be eligible, graduates must have maintained 3.5 grade point averages on a 4.0 scale or have graduated in the upper 10 percent of their graduating classes or major university subdivisions, such as the School of Business Administration.

¹⁸U.S. Merit Systems Protection Board, *Restoring Merit to Federal Hiring: Why Two Special Hiring Programs Should Be Ended* (Washington, D.C.: January 2000).

¹⁹*Angel G. Luevano et al., v. Alan Campbell, Director, Office of Personnel Management, et al.*, 93 F.R.D. 68 (1981).

agencies to noncompetitively appoint eligible veterans to otherwise competitive positions at any grade level through GS-11 or equivalent. After the veteran completes 2 years of satisfactory service, the employing agency must then noncompetitively convert this VRA appointee to permanent status in the competitive federal service. Veterans Employment Opportunities Act (VEOA) authority allows agencies to obtain a wider pool of job applicants by permitting agencies to accept job applications from eligible veterans for certain positions that would typically be open only to individuals with competitive status. Veterans who submit job applications under this VEOA authority could then be selected for the positions under standard competitive procedures. Supervisors of wage-grade employees at GSA's Philadelphia region said, for example, that using VRA authority had been effective in assisting the region in quickly hiring highly qualified veterans. GSA human resources officials in San Francisco told us that VEOA had been effective in facilitating the hire of 24 veterans over the last year.

Incentive Awards Were Also Cited as Effective Flexibilities

Agency and union officials also frequently mentioned the effectiveness of granting incentive awards to employees. The intent of the incentive awards program is to provide appropriate motivation and recognition for excellence in job performance and contributions to an agency's goals. Incentive awards, which can be either monetary or nonmonetary, include the following.

- Performance awards are lump-sum cash awards that reward employees for fully successful or better job performance as defined by formal performance appraisals. Awards can be up to 10 percent of an employee's basic pay, or up to 20 percent for exceptional job performance.
- Special act or service awards are lump-sum cash awards for specific accomplishments that contribute to the efficiency, economy, or other improvement of government operations. Agencies may grant up to \$10,000 without external approval, up to \$25,000 with OPM approval, and in excess of \$25,000 with Presidential approval.²⁰

²⁰The Department of Defense and IRS do not require OPM approval for awards up to \$25,000, but awards over \$25,000 must be approved by the President.

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- Quality step increases (QSI) are permanent pay increases for outstanding performance as shown on formal job performance appraisals. QSIs are granted by providing employees with faster than normal progression through the stepped rates of GS.
 - Time-off awards are awards that grant employees time off from duty without charging their annual leave or requiring that they forgo pay. These awards allow employees to take time off from work when it is most convenient for both the agencies and the employees.
 - Group incentives include cash awards granted to employees based on (1) increases in productivity or decreases in costs (i.e., gainsharing) or (2) achievement of specified goals that enhance the success of the organization's mission (i.e., goalsharing). These incentives are designed to foster teamwork and promote innovation and continuous improvement.
 - Honorary and informal recognition awards are awards such as trophies, plaques, certificates, and other tangible incentives. These awards give supervisors maximum flexibility to be creative in how they recognize employees.

Agency and union officials provided us with numerous examples of their use of incentive awards as effective flexibilities. For example:

- Officials at GSA said that GSA had used its awards program effectively to recognize and motivate employees and that the agency had delegated approval for authorizing awards to appropriate levels within the agency. GSA's fast-track awards program, for example, allows managers and supervisors to log onto GSA's intranet system and complete the administrative work for the award within minutes.
- At VBA in Philadelphia, supervisors noted that offering movie tickets and restaurant coupons to employees was a good way to show appreciation for employees' performance and contributions.
- U.S. Mint officials said that they reward and recognize employees through on-the-spot awards, time-off awards, and gainsharing. At the Mint in San Francisco, managers mentioned that they have used employee recognition day to boost morale by providing awards that are of nominal monetary value but that are symbolically significant, such as [T-shirts](#).

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- State's Information Resource Management (IRM) Bureau officials said that their quarterly awards process allows supervisors to recognize and reward employees in a more timely fashion, rather than waiting until the annual job performance appraisal process.
 - IRS managers in Philadelphia mentioned that the agency provides data conversion employees with incentive pay tied to quality and production, noting that this award has helped to motivate these employees to accomplish their job tasks more quickly and accurately.

Agency Officials and Union Representatives Cited Need for Additional Human Capital Flexibilities

We identified five categories of additional flexibilities that agency officials and union representatives cited most often as being potentially helpful in managing their workforces if additional flexibilities were authorized for agencies. Specifically, these categories include

- more flexible pay approaches,
- greater flexibility to streamline and improve the federal hiring process,
- increased flexibility in addressing employees' poor job performance,
- additional workforce restructuring options, and
- expanded flexibility in acquiring and retaining temporary employees.

These suggestions by agency officials and union representatives provide a starting point for executive branch decision makers and Congress to consider as they seek to reform federal human capital policies and practices. Although we have not analyzed the validity of the suggestions, the categories are consistent with the authorities that we have established at GAO and have been urging for other federal agencies. The GAO Personnel Act of 1980 and our 2000 legislation included some of the proposed additional flexibilities. The most prominent change in human capital management that we implemented as a result of the GAO Personnel Act of 1980 was a broadbanded²¹ pay-for-performance system that bases employee compensation primarily on the knowledge, skills, and performance of individual employees. It provides managers flexibility to

²¹Broadbanding is a personnel classification and pay system that involves combining separate grade levels into broad pay bands.

assign and use employees in a manner that is more suitable to multitasking and the full use of staff. Importantly, careful design and effective implementation is crucial to obtaining the benefits of broadbanding in an equitable and cost-effective manner. Also, as a result of the 1980 Act, the Comptroller General has the authority to hire, on a noncompetitive basis, up to 15 experts and consultants at any level, including senior executives, with renewable terms up to 3 years each. GAO has used this authority in selected cases and found it to be valuable in filling critical time-sensitive positions within the agency.

Our October 2000 legislation gave us additional tools to realign our workforce in light of mission needs and overall budgetary constraints; to correct skills imbalances; and to reduce high-grade, managerial, or supervisory positions without reducing the overall number of employees. To address any or all of these three situations, we were given authority to offer voluntary early retirement and voluntary separation incentive payments to our employees until December 31, 2003. This legislation also allowed us to create a technical and scientific career track at a compensation level comparable to senior career executives and to give greater consideration to performance and employee skills and knowledge in any reduction-in-force actions.

Aspects of these authorities were also included in the recently enacted Homeland Security Act of 2002,²² which created the new Department of Homeland Security. In addition to providing the President with additional authority to create new policies for managing the workforce within the new department, the legislation includes provisions that authorize agencies across the federal government to use additional personnel flexibilities. For example, agencies will now be permitted to offer buyouts to their employees without the requirement to reduce their overall number of employees. This change will provide agencies the opportunity to more easily restructure their workforces to correct skills imbalances related to those employees whose jobs have become obsolete or whose skills are no longer needed. The legislation also permits agencies to use a more flexible approach in the rating and ranking of job candidates during the hiring and staffing process. Using this alternative approach can expand the number of qualified candidates that a selecting official could choose from when filling a position. In addition, under the legislation agencies will need to

²² Pub. L. No. 107-296, Nov. 25, 2002.

incorporate workforce planning into their strategic plans and appoint “chief human capital officers” to oversee workforce management.

Additional analysis may be needed to ensure that any new personnel authorities that are granted and implemented are consistent with a focus on results, merit, and other important federal employment goals. As we have noted in previous reports and testimonies,²³ comprehensive legislative reform of the civil service will likely be necessary to address the federal government’s human capital challenges; however, the consensus necessary to make this a reality has yet to be achieved. Such reform could provide a broader range of federal agencies with a more standard set of human capital tools and flexibilities to manage their workforces. Ultimately, in undertaking any civil service reform, policymakers will likely want to consider the potential needs of individual agencies along with the governmentwide need to manage competition between agencies for skilled employees.

Agency Officials Believed That Additional Flexibilities Could Coexist with Protection of Employee Rights, but Union Representatives Gave Mixed Views

Because human capital flexibilities entail greater decentralization and delegation of human capital authorities and fewer rules, the protection of employees’ rights under these conditions can be challenging. The managers and supervisors and human resources officials we interviewed generally believed that additional human capital flexibilities could be authorized and implemented in their agencies while also ensuring protection of employees’ rights. Union representatives we interviewed, on the other hand, had mixed views on the ability of agencies to protect employee rights with the increased discretion that additional flexibilities would give to agency managers. Some union representatives responded positively when asked if agencies could give managers additional flexibilities while protecting employees’ rights. Several union officials, however, said that managers could more easily abuse their authority when implementing these additional flexibilities and that agency leaders often do not take appropriate actions in dealing with abusive managers.

According to the agency and union officials we interviewed, one of the most effective ways to ensure protection of employees’ rights when implementing these flexibilities is making certain that supervisors and employees are fully aware of the available flexibilities, the procedures to

²³See, for example, [GAO-01-263](#) and [GAO-01-357T](#).

use them, and the associated rights and responsibilities of both managers and employees when using them. Clear guidelines for consistently applying the flexibilities and straightforward explanations from managers about how and why they made decisions are essential, according to some of the individuals we interviewed. The consensus of agency officials, with some union representatives agreeing, was that putting personnel authority in the hands of agency managers through human capital flexibilities will not affect employee protection as long as managers are held directly accountable for their personnel decisions.

In our previous work, we recognized the importance of involving employee unions when agencies propose major changes in the work environment that may be of particular concern to the unions.²⁴ We found that obtaining union cooperation and support through effective labor-management relations can help achieve consensus on the planned changes, avoid misunderstandings, and more expeditiously resolve problems that occur. When agencies and employee unions maintained an ongoing working relationship in an environment of trust and openness, agencies and unions were able to work cooperatively even in the face of significant change. For example, both IRS and the National Treasury Employees Union officials credited the excellent working relationship they developed over the last decade for helping the reorganization of IRS. One IRS official, for example, stated that it is important to involve the union as a part of the discussions about flexibilities because the union is sometimes more effective than agency managers in communicating with employees.

Agency managers and supervisors also cited the importance of securing a close working relationship with the agency's human resources officials in the protection of employee rights. Officials commented that human resources officials are often good sources of information about flexibilities and effective monitors of potential problems involving their use. According to several supervisors we interviewed, this assistance and monitoring by human resources officials, along with managers' and union representatives' efforts to keep each other honest, help to ensure that employee protection can coexist with the use of human capital flexibilities.

²⁴U.S. General Accounting Office, *Human Capital: Practices That Empowered and Involved Employees*, GAO-01-1070 (Washington, D.C.: Sept. 24, 2001).

Key Practices Can Assist Agencies in Effectively Using Flexibilities

Based on our interviews with human resources directors across the federal government and our related human capital work, we identified six key practices that agencies can implement for effectively using human capital flexibilities. These practices are (1) planning strategically and making targeted investments, (2) ensuring stakeholder input in developing policies and procedures, (3) educating managers and employees on the availability and use of flexibilities, (4) streamlining and improving administrative processes, (5) building transparency and accountability into the system, and (6) changing the organizational culture.²⁵ We confirmed the importance of these practices in our discussions with managers and supervisors, human resources officials, and local union representatives at the seven agencies we selected for more detailed review. We also identified relevant examples of the use of these key practices from the seven agencies. The following is a more detailed discussion of these practices along with examples we identified.

Planning Strategically and Making Targeted Investments

With strong commitment on the part of their leadership, federal agencies need to ensure that the use of human capital flexibilities is part of an overall human capital strategy clearly linked to the program goals of the organization. Agencies need to plan for how they will use and fund these authorities, what results they expect to achieve, and what methods they will use to evaluate actual results. Our review found that a significant reason why managers and supervisors had not made greater and more effective use of existing human capital flexibilities was agencies' weak strategic human capital planning and inadequate funding for using these flexibilities given competing priorities. Such a strategic focus would allow for answering critical questions such as whether current staff and resources are sufficient; whether they are being allocated in a manner best suited to promote mission accomplishment; and, ultimately, whether agencies and Congress may wish to consider a variety of targeted investments or new human capital flexibilities in the future. The following are elements and examples of planning strategically and making targeted investments from the seven agencies we reviewed.

²⁵U.S. General Accounting Office, *Managing for Results: Building on the Momentum for Strategic Human Capital Reform*, [GAO-02-528T](#) (Washington, D.C.: Mar. 18, 2002).

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- **Obtain agency leadership commitment.** Top leadership commitment is crucial to instilling a common vision across the organization and creating an environment that is receptive to innovation. In earlier reports and testimonies, we observed that top leadership plays a critical role in creating and sustaining high-performance organizations.²⁶ We also highlight the importance of top leadership commitment in our recently issued model of strategic human capital management, in which we note that political leaders and senior career executives demonstrate this commitment by personally developing and directing reform, driving continual improvement, and characterizing the agency's mission in reform initiatives.²⁷ At IRS, for example, Commissioner Rossotti's efforts demonstrated a clear case of leadership's commitment to change. As mandated by Congress in the IRS Restructuring and Reform Act, the Commissioner articulated a new mission for the agency, together with support for strategic goals that balance customer service and compliance with tax laws. The Commissioner led a modernization effort that touched virtually every aspect of IRS, including implementation of IRS's newly authorized personnel system and the additional human capital flexibilities that accompanied it.
 - **Determine agency workforce needs using fact-based analysis.** Federal agencies often have not gathered and analyzed the data required to effectively assess how well their human capital approaches have supported results. High-performing organizations identify their current and future human capital needs, including the appropriate number of employees; the key competencies for mission accomplishment; and the appropriate deployment of staff across the organization. For example, in 1998 the Air Force Materiel Command (AFMC), the largest employer of civilians in the Air Force, began a two-phased workforce study designed to tailor its human capital to meet future business needs. AFMC's planning efforts, as documented in its April 2000 study called *Sustaining the Sword*, involved an assessment of the current and projected 2005 workforce by workforce mix, skills, skill levels, and

²⁶See the following GAO products: [GAO-01-1070](#); *Managing for Results: Federal Managers' Views Show Need for Ensuring Top Leadership Skills*, [GAO-01-127](#) (Washington, D.C.: Oct. 20, 2000); *Management Reform: Using the Results Act and Quality Management to Improve Federal Performance*, [GAO/T-GGD-99-151](#) (Washington, D.C.: July 29, 1999); and *Management Reform: Elements of Successful Improvement Initiatives*, [GAO/T-GGD-00-26](#) (Washington, D.C.: Oct. 15, 1999).

²⁷[GAO-02-373SP](#).

demographics and then a more detailed position-level analysis of workforce data from AFMC locations. AFMC reported that these data and the results of its workforce shaping activities led to a more informed understanding of workforce gaps, for which corrective strategies could be then developed.

- **Develop strategies that employ appropriate flexibilities to meet workforce needs.** After identifying current and future workforce needs, agencies ought to develop effective strategies that fill the gaps. In developing these strategies, agencies should assess which human capital flexibilities might work best given current and future needs. For example, in 2000 the Mint created a “human resources flexibilities team” to assess the agency’s current and future use of existing human capital flexibilities. This initial assessment, as outlined in a December 2000 report, revealed that the Mint had pursued a number of key flexibilities but had not done so uniformly across its organizational, occupational, and grade-level structures. In its report, the Mint assessed over 80 disparate human capital flexibilities and developed specific plans to use each of the flexibilities that had not been used or that required immediate attention for full use.
- **Make appropriate funding available.** After developing strategies, agencies need to assess the associated costs of using any human capital flexibilities as part of these strategies. Such assessments will allow agencies to better plan for the use of these flexibilities and to ensure that appropriate funding is available when needed. Air Force, for example, developed a comprehensive, multiyear funding plan to implement its Civilian Personnel Management Improvement Strategy (CPMIS), which comprises 28 separate human capital initiatives grouped into the areas of accession planning, workforce development, retention/separation management, and support activities. Under accession planning, for instance, one initiative calls for the Air Force to expand its use of the “3Rs”—recruitment bonuses, relocation bonuses, and retention allowances—to sustain necessary skills in the civilian workforce. Beginning in fiscal year 2004, the Air Force projects offering approximately 1,300 recruitment bonuses annually at an average cost of \$11,250, approximately 650 relocation bonuses at an average cost of \$10,000, and approximately 650 retention allowances at an average cost of \$9,000. (See table 2.)

Table 2: Air Force CPMIS Funding Strategy for 3Rs (Fiscal Years 2004 through 2009)

Human capital flexibility	Proposed funding by fiscal year (dollars in millions)					
	2004	2005	2006	2007	2008	2009
Recruitment bonuses (1,300)	\$14.6	\$15.5	\$16.4	\$17.3	\$18.3	\$19.3
Relocation bonuses (650)	6.5	6.7	6.8	7.0	7.2	7.4
Retention allowances (650)	5.9	6.0	6.2	\$6.4	6.6	6.8

Source: Air Force.

Ensuring Stakeholder Input in Developing Policies and Procedures

Agency leaders, managers, employees, and employee unions need to work together to identify and effectively implement human capital flexibilities. Engaging all of the stakeholders in developing policies and procedures for the use of flexibilities helps in reaching agreement on the need for change, the direction and scope that change will take, and how progress will be assessed. Stakeholder input should also be used to ensure that the policies surrounding the use of flexibilities are clear and the procedures to implement them are uncomplicated. The following are elements and examples from our seven selected agencies on how they ensured stakeholder input in developing human capital flexibility policies and procedures.

- Engage the human capital office.** Because flexibilities influence the entire human capital system, human capital professionals are needed to supply the energy and expertise in helping to develop policies and procedures on the use of flexibilities. As noted in our model of strategic human capital management, this assistance requires the expansion of the role of human capital professionals from largely paperwork processors to functioning as advisors to and partners with senior leadership and managers. By transforming from focusing largely on transactions to more on total customer service, the role of the human capital office in facilitating the use of flexibilities will become increasingly important. GSA's Philadelphia regional office, for example, established a Human Resources Council, which is composed of the human resources director and representatives of various GSA offices, to discuss human capital policies and practices in the region, such as alternative work arrangements and incentive awards. In another example, State's IRM Bureau directly involved human capital professionals in its working group that crafted its skills development program to provide retention allowances (ranging from 5 to 15 percent)

to certain information technology workers who obtain job-related degrees and certifications.

- **Engage agency managers and supervisors.** Soliciting the input of managers and supervisors on how best to implement human capital flexibilities is a key component for their successful use. Because managers and supervisors are virtually certain to be negatively affected by unclear policies and procedures, their perspectives on how to make strategic use of flexibilities, while avoiding potential problems caused by poor implementation, are essential. To address the potential problems of limited input, for example, 160 frontline managers from GSA's central and regional offices convened in four sessions in March 2001 to exchange information about effective workforce-related practices using many of the flexibilities already available to the agency. This effort resulted in a catalog of "best practices" that their offices had implemented in the areas of recruiting and orienting employees, engaging existing employees, and developing leaders.
- **Involve employees and unions.** As with any significant change in the workplace, involving employees and unions in decisions to use human capital flexibilities increases employees' understanding and acceptance of the objectives for implementing change, helps to avoid misunderstandings, and can assist in more expeditiously resolving problems that might occur.²⁸ While frontline employees can help ensure a more operationally oriented perspective on the use of flexibilities, obtaining union cooperation and support through effective labor-management relations can help achieve consensus on the changes accompanying their use. For example, the Mint and VBA made changes to employee work schedules based on input from employees in open forums. At a "town hall" meeting at the Mint's San Francisco coin-making plant, employees (with assistance from the local union) were able to vote on various options for implementing an alternative work schedule for the facility. At a "listening post" session at VBA's regional office in Philadelphia, employees offered input to change the operating hours of the facility's phone operations.
- **Use input to establish clear, documented, and transparent policies and procedures.** After obtaining sufficient input from key players, agencies need to develop and implement human capital

²⁸[GAO-01-1070](#).

flexibilities using clear, documented, and transparent policies and procedures. This practice is essential to ensuring that they are used fairly and, at the same time, are not encumbered with so many administrative burdens that they lose their value as flexibilities. Agencies can take various steps to ensure that policies and procedures are clear and uncomplicated. For example, the Mint's Office of Chief Financial Officer hired a writer-editor to assist the agency in writing personnel-related policies and procedures in "plain English." As an example of developing uncomplicated policies and procedures, GSA officials provided us with a merit promotion plan that had been reduced from 75 to 5 pages.

Educating Managers and Employees on Availability and Use of Flexibilities

Agencies need to ensure that they have an effective campaign not only to inform agency managers and employees of their personnel authorities, but also to explain the situations where the use of those authorities is appropriate. Our work at the seven agencies showed that the lack of awareness and knowledge of human capital flexibilities was one of the most significant reasons why federal managers and supervisors have not made better use of these flexibilities. In some cases, senior managers might not know that such flexibilities were already available to their agencies. In other cases, agency leaders or parent departments might place restrictions on the use of a flexibility—either strategically or haphazardly—and then not communicate the source and reasons for such restrictions to line managers and supervisors within the agency. Educating managers and employees goes a long way in ensuring effective use of these flexibilities across the federal government. The following are elements and examples of how agencies educated managers and employees on the availability and use of human capital flexibilities.

- **Train human capital staff.** Traditionally, what has been called the personnel or human resources function has often been viewed as strictly a support function involved in administering personnel processes and ensuring compliance with rules and regulations. As human capital professionals take a more consultative approach to their jobs, they will need not only the knowledge of and expertise in the full range of human capital flexibilities available but also skills on communicating this information to their clients in the agencies they serve. For example, GSA held a conference in September 2000 for its human resources staff members to increase their knowledge of emerging human capital issues and to better their skills in responding to the needs of clients throughout the agency. According to a senior

human resources manager at GSA, the conference included a presentation and discussion of the human capital flexibilities available for use within the agency.

- **Educate agency managers and supervisors on existence and use of flexibilities.** Ultimately the flexibilities within the personnel system are only beneficial if the managers and supervisors who would carry them out are actually aware of their existence and of the best manner in which they could be used. Educating managers and supervisors is key to ensuring that agencies use all of the tools and flexibilities needed to manage their workforces to accomplish agency missions and achieve goals. For example, AFMC developed and distributed a *Supervisor's Guide to Work Force Planning* to educate agency managers and supervisors on numerous flexibilities available to attract and retain quality employees. GSA's Philadelphia office has educated its supervisors on human capital flexibilities with its "Human Resources Solutions Series" training, which includes topics such as employee leave and work schedules, options for dealing with performance and conduct problems, and balancing managerial flexibility and accountability under merit system principles.
- **Inform employees of procedures and rights.** In previous work, we have highlighted the importance of informing employees of personnel-related policies and procedures and their rights under them.²⁹ This communication helps in minimizing employee confusion and apprehension and ensuring that flexibilities are implemented fairly within and across the organization. Agencies can use a variety of methods to communicate this information. For example, GSA's human resources manager in Philadelphia said that most updates concerning employee rights and procedures are communicated via GSA's intranet Web site. The office also distributes an employee newsletter with information about related personnel policies and procedures.

²⁹See, for example, the following: U.S. General Accounting Office, *Whistleblower Protection: VA Did Little Until Recently to Inform Employees About Their Rights*, [GAO/GGD-00-70](#) (Washington, D.C.: Apr. 14, 2000), and *D.C. Courts: Implementation of Personnel Policies Requires Further Attention From the Courts' Leadership*, [GAO/GGD-00-75BR](#) (Washington, D.C.: Apr. 12, 2000).

Streamlining and Improving Administrative Processes

Agencies also need to streamline and improve administrative processes for using flexibilities and review self-imposed constraints that may be excessively process oriented. Indeed, our interviews with agency managers and supervisors revealed that they viewed burdensome and time-consuming approval processes as a significant reason why they did not make better use of available human capital flexibilities. Although sufficient controls are important to ensure consistency and fairness in using flexibilities, agency officials should look for instances in which processes can be reengineered. This reengineering of processes for using flexibilities can assist the agencies in increasing efficiencies, decreasing costs, or both. In this effort, agency managers need to bear in mind that they should first determine requirements and design processes before developing any information systems to support the new processes. The following are elements and examples of how the agencies streamlined and improved administrative processes.

- **Ascertain the source of existing requirements.** As we have previously reported, some of the barriers to effective strategic human capital management in the federal government do not stem from law or regulation but are self-imposed by agencies.³⁰ The source of these barriers can sometimes be a lack of understanding of the prerogatives that agencies have. For example, the head of State's office responsible for overseas building operations asked OMB in May 2001 for a series of increased flexibilities to accomplish various personnel management goals. In its response, OMB noted that the department already had the authority to implement many of these requested changes. In another example, personnel policy at the Mint had required that job vacancy announcements for certain positions be publicly posted for at least 30 calendar days. OPM, however, generally allows agencies the flexibility to post such announcements for as few as 5 business days.³¹ Mint officials told us that the Mint's parent agency, the Department of the Treasury, had initially established this 30-day posting requirement and that the Mint's original policy had been drafted to concur with

³⁰U.S. General Accounting Office, *Transforming the Civil Service: Building the Workforce of the Future—Results of a GAO-Sponsored Symposium*, GAO/GGD-96-35 (Washington, D.C.: Dec. 20, 1995), and *GPRA: Managerial Accountability and Flexibility Did Not Work As Intended*, GAO/GGD-97-36 (Washington, D.C.: Apr. 10, 1997).

³¹OPM allows agencies to post job announcements for even shorter periods than 5 business days in situations when inordinately large numbers of applications from well-qualified candidates are expected.

Treasury's. After Mint officials realized that this 30-day requirement flowed from its parent department, the Mint was able to work to modify the policy to require a minimum of only 5 business days for posting these job announcements.

- **Reevaluate administrative approval processes for greater efficiency.** In our interviews at the selected agencies, some managers and supervisors complained about the lack of time to initiate and implement the justification and approval processes that agencies have in place to use existing flexibilities. If senior managers within the agency want supervisors to use these flexibilities, supervisors must view the required initiation and approval processes worth their time compared to the expected benefit to be gained in using the flexibility. In simplifying processes to provide for greater efficiencies and improved quality and responsiveness, agencies have often turned to automation of paper-based personnel processes and procedures. For example, managers and supervisors at GSA's Philadelphia office cited the agency's recently automated processes for granting employees on-the-spot cash awards (ranging from \$50 to \$2,000). Previously, agency supervisors were required to complete lengthy justifications and send these forms to the personnel office for review. According to the human resources manager, the perceived burdens of the previous administrative process led to very few awards being granted. Now, according to GSA managers and supervisors, by accessing GSA's intranet Web site, an agency supervisor can complete the award initiation process within minutes and on the next business day receive a certificate to present to the employee that shows what the award is for and when the employee can expect the money in his or her paycheck.
- **Replicate proven successes of others.** When developing processes and procedures for using flexibilities, agencies can potentially learn valuable lessons from other agency components or from other organizations altogether. These lessons learned could be instructive in developing ways to best implement such flexibilities along with determining which flexibilities are most effective. For example, officials at VBA's Oakland office informed the agency's Philadelphia office of the success they had in using the student cooperative program to recruit needed staff members for the office. This special hiring authority, called the Student Career Experience Program, allows agencies to appoint students who are enrolled or have been accepted for enrollment at least part-time at accredited institutions. After completing

their academic requirements, these employees can then be converted noncompetitively to term or permanent positions within 120 days.

Building Transparency and Accountability into the System

To ensure effective use of human capital flexibilities, agencies need to delegate authority to use these flexibilities to appropriate levels within the agency, and then agency managers and supervisors need to be held accountable—both for achieving results and for treating employees fairly. Agency managers and supervisors are more likely to support changes when they have the necessary authority and flexibility—along with commensurate accountability and incentives—to advance the agency’s goals and improve performance. Indeed, devolving decision-making authority to program managers in combination with holding them accountable for results is one of the most powerful incentives for encouraging results-oriented management. However, achieving a proper balance between managerial flexibility and adequate controls to ensure consistency and accountability can be a challenging endeavor. Moreover, agencies that expect their managers and employees to take greater responsibility and be held accountable for results must ensure that the managers and employees have the training and tools they need to fulfill these expectations. The following are elements and examples from the agencies we reviewed of how they built transparency and accountability into their human capital systems.

- **Delegate authority to use flexibilities to appropriate levels within the agency.** In a recent report, we found that only about one-third of agency managers we surveyed from 28 agencies believed that they had, to a great or very great extent, the authority they needed to help accomplish agency goals.³² Providing managers and supervisors with such authority gives those who know the most about an agency’s programs the power to make those programs work. This delegation of authority is equally important when implementing human capital flexibilities. For example, the Department of the Treasury delegated authority to IRS and its other bureaus to establish their own policies on superior qualifications appointments (SQA), a flexibility that allows agencies to hire individuals at advanced rates of pay based on the individuals’ superior qualifications or special needs of the agencies. To

³²U.S. General Accounting Office, *Managing for Results: Federal Managers’ Views on Key Management Issues Vary Widely Across Agencies*, GAO-01-592 (Washington, D.C.: May 25, 2001).

expedite timely approval in hiring situations, IRS in turn redelegated this approval authority for SQAs to the human resources officers within each of the agency's business units. In another example, VBA in Philadelphia delegated authority to immediate supervisors to approve on-the-spot monetary awards for their employees without review by senior managers. VBA supervisors said that under this delegated authority they simply complete a short form and present it to the employee, who can then proceed to the on-site credit union and receive cash, all within 1 hour.

- **Hold managers and supervisors directly accountable.** Agencies must develop clear and transparent guidelines for using flexibilities and then hold managers and supervisors accountable for their fair and effective use. Managers need to be held accountable for their contributions to results and recognized and rewarded for those contributions. Internal and external parties, such as agency human resources offices, offices of inspectors general, and OPM, can help to ensure transparency in the use of flexibilities through appropriate review and oversight. For example, according to the senior human resources official at GSA's Philadelphia regional office, the human resources office monitors supervisors' granting of employee awards to ensure that supervisors are effectively using this flexibility. This list of award amounts and frequencies (without personal identifiers) can be provided to supervisors within the region so that they know how their use of such flexibilities compares with that of other regional supervisors.
- **Apply policies and procedures consistently.** While recognizing differences in each individual's job performance and competencies, supervisors need to make concerted efforts to apply policies and procedures for using flexibilities consistently. Our review at the seven agencies showed that a significant reason why supervisors have not made greater use of flexibilities is supervisors' fears that some employees will view the use of various flexibilities as somehow unfair. The consistent application of policies and procedures helps to lessen employee fears because decision-making criteria are well defined, documented, transparent, and applied the same way in similar situations. For example, after some concerns expressed by newly hired IRS employees about possible inconsistencies, the agency developed guidelines for its managers to use in determining if a job applicant qualifies for a recruitment bonus. According to IRS officials, these

guidelines helped to ensure consistent application of recruitment bonuses based on the specific backgrounds of new employees.

Changing the Organizational Culture

Organizational culture represents the underlying assumptions, beliefs, values, attitudes, and expectations generally shared by an organization's members. Because an organization's beliefs and values affect the behavior of its members, changing the organizational culture related to outdated personnel-related approaches is crucial to effectively using human capital flexibilities. Changing this culture is important particularly in areas related to ensuring the involvement of senior human capital managers in key decision-making processes and decreasing managers' and supervisors' resistance to change. Agencies also need to address managers' and supervisors' concerns that employees will view the use of flexibilities as inherently unfair, and the belief that all employees must be treated essentially the same regardless of job performance and agency needs. By addressing such organizational culture issues, agencies can better assist managers and staffs in developing creative ways to employ tools and flexibilities to address human capital challenges. The following are elements and examples from the seven agencies we reviewed of practices they implemented to change their organizational cultures.

- **Ensure involvement of senior human capital managers in key decision-making processes.** A fundamental reorientation is required to ensure that human capital leaders take a "seat at the table" as full members of the top management team rather than isolating them to provide after-the-fact support. By expanding the strategic role of human capital officials beyond providing traditional personnel administration services, agencies are in a better position to integrate human capital considerations when identifying the mission, strategic goals, and core values of the organization as well as when designing and implementing policies and procedures. The senior human capital manager at IRS, for instance, has been heavily involved in the agency's recent restructuring initiative as well as its overall strategic direction. Recognizing the importance of this strategic role, he also recently devolved the agency's human resources office into three units; two are strategically focused and the third is transaction focused.
- **Encourage greater acceptance of prudent risk taking and organizational change.** Managers and supervisors need to have an appropriate attitude toward risk taking and proceed with new operations after carefully analyzing the risks involved and determining

how they may be minimized or mitigated. Managers and supervisors will at times resist making changes because they would have to work in new and unfamiliar ways. Although managers and supervisors can initially be uncomfortable exercising newly delegated authorities, they will often gain confidence as they better understand their importance and become more experienced in exercising them. For example, IRS's regional office in Oakland hired a consultant to conduct training for managers that promotes creative thinking, empowerment for decision making, and prudent risk taking. The training course is an ongoing process with managers returning each year to ensure their continued comfort with and use of principles covered in the training. In another example, according to a senior human resources official in State, managers in the department's Office of Logistics Management were initially hesitant to allow the use of alternative work schedules for employees in that office but finally accepted use of the flexibility when they realized that it would not drastically affect the office's operations.

- **Recognize differences in individual job performance and competencies.** In previous work looking at the practices of private sector organizations regularly cited as leaders in the area of human capital, common principles of human capital management we identified include the importance of recognizing differences in employees' job performance and competencies.³³ Rather than follow the federal government's traditional approach of compensating federal employees strictly based on their status at a particular grade level, agencies should look at using performance management systems, including pay and other meaningful incentives, to more clearly recognize individual job performance as well as employee competencies. In an example of recognizing differences in individual job performance, GSA's Public Buildings Service (PBS) created a performance measurement and incentive awards system for its regional offices and its employees in its "Linking Budget to Performance" initiative. Under this initiative, each of PBS's 11 regional offices strives to achieve preestablished goals for nine standard performance measures. On the basis of each region's performance, monetary incentives can be provided based on employees' contribution to the region's accomplishments. Furthermore, an example of recognizing differences in employee competencies is demonstrated with State's use of retention allowances for employees

³³U.S. General Accounting Office, *Human Capital: Key Principles From Nine Private Sector Organizations*, GAO/GGD-00-28 (Washington, D.C.: Jan. 31, 2000).

who obtain job-related degrees and certifications in the information technology field.

Conclusions

The insufficient and ineffective use of flexibilities can significantly hinder the ability of federal agencies to recruit, hire, retain, and manage their human capital. To deal with their human capital challenges, it is important for agencies to assess and determine which human capital flexibilities are the most appropriate and effective for managing their workforces. On the basis of our review at seven selected agencies, the most effective flexibilities cited were work-life policies and programs, monetary recruitment and retention incentives, special hiring authorities, and employee incentive awards. Our review at the seven selected agencies also found several categories of additional flexibilities that agency and union officials cited as being potentially helpful in managing their workforces. If such additional flexibilities are desired, agencies should develop business cases to justify the need for the authority to implement these additional flexibilities. Although comprehensive civil service reform will likely be necessary to address the federal government's human capital challenges, agencies need not wait in seeking additional flexibilities where clear business cases have been established.

The appropriate and effective use of flexibilities is essential to ensuring that employees' rights are protected, agencies adhere to merit system principles, and employees are shielded from prohibited personnel practices. To ensure the most effective use of human capital flexibilities, it is important that agencies (1) plan strategically and make targeted investments, (2) ensure stakeholder input in developing policies and procedures, (3) educate managers and employees on the availability and use of flexibilities, (4) streamline and improve administrative processes, (5) build transparency and accountability into their systems, and (6) change their organizational cultures. By more effectively using flexibilities, agencies would be in a better position to manage their workforces, assure accountability, and transform their cultures to address current and emerging demands.

Agency Comments and Our Evaluation

We provided a draft of this report on September 4, 2002, to the Director of OPM, the Secretary of Defense, the Commissioner of IRS, the Director of the U.S. Mint, the Secretary of Veterans Affairs, the Administrator of GSA, the Under Secretary for International Trade, and the Secretary of State.

OPM, Defense, IRS, the Mint, VA, GSA, and ITA provided comments on the draft report. These agencies either generally agreed with the information presented or did not express an overall opinion about the report. In some cases these agencies provided written technical comments to clarify specific points regarding the information presented. Where appropriate, we have made changes to this report to reflect these technical comments. State did not provide comments on this report.

The following summarizes significant comments provided by the seven agencies.

- In her written comments (see app. II), the OPM Director noted that OPM was pleased that our report acknowledges the need for greater personnel flexibilities in cases where existing law constrains OPM in providing policies and programs to assist agencies in accomplishing their missions. In technical comments, OPM raised concerns, however, about our position that individual agencies could be authorized additional legislative flexibilities if they develop sound business cases that such flexibilities are needed. OPM stated that its obligation is to review and analyze all agencies' requests to use additional flexibilities or create additional flexibilities to ensure that they promote the efficiency and effectiveness of the federal government and do not create an unfair competitive advantage for selected agencies. In this regard, OPM commented that it supports the need for a standardized approach to governmentwide flexibilities. As we noted in this report and in previous reports and testimonies, comprehensive legislative reform of the civil service will likely be necessary to address the federal government's human capital challenges. We believe, however, that agencies need not wait in seeking additional flexibilities where clear business cases have been established for such flexibilities. It is possible that civil service reform could provide a broader range of agencies with a more standard set of human capital tools and flexibilities to manage their workforces. Ultimately, in addressing civil service reform, policymakers will likely want to consider the potential needs of individual agencies along with the governmentwide need to manage competition between agencies for skilled employees. We added a discussion of this issue to the report in the section dealing with agency and union officials' views on authorizing additional flexibilities.
- In its technical comments, OPM also emphasized that the outstanding scholar hiring program can only be used as a supplement to competitive examining and should not be viewed as an "alternative" hiring authority.

OPM expressed concern that we not recommend that agencies use this program for a purpose other than that for which it was intended. We noted in the draft report, however, that this program was intended to serve as a supplemental hiring tool. Our report states that many agency officials we interviewed viewed this program as effective because the program allows the agency to hire more quickly given that the agency does not have to rank and rate candidates as usually required under the standard competitive hiring process. Although OPM does not include the outstanding scholar program as an alternative hiring or staffing option in its *Flexibilities Handbook*, many of the agency officials we interviewed viewed this program as an effective flexibility, and the program meets the definition of human capital flexibility that we used in this report. Our report, however, does not recommend that agencies use this program to circumvent the standard examining process. As with many of the flexibilities available to agencies, the outstanding scholar program could be used in inappropriate or inefficient ways. As we note under key factors for effective use of flexibilities, agencies must build transparency and accountability into their human capital systems to ensure that managers and supervisors are held accountable for the fair and effective use of these flexibilities. In response to OPM's concerns on this issue, we added additional language to the report to emphasize that this program is to be used as a supplement to competitive hiring and to note OPM's statement that agencies must have an established pattern of competitive examining into the covered jobs before agencies can use this program.

- Defense's comments, provided by E-mail through its Office of Inspector General, did not express an overall opinion about the report. However, the comments noted that it appeared we were asserting in the report that telecommuting had been clearly shown to increase employee productivity. We noted in the draft report that our discussions with agency and union officials about telecommuting brought about strongly mixed views, including its effect on employee productivity and the challenges of managing such a program. Still, we changed the text to clarify that some managers and supervisors told us that telecommuting has not been shown to increase employee productivity and that telecommuting is not practical for all occupations or situations.
- In written comments (see app. III), the IRS Commissioner stated that he generally agreed with the list of available human capital flexibilities that agency and union officials cited as most helpful for managing their workforces. Nonetheless, he said that these flexibilities may not be as

important in the long run as some of the more deep-rooted changes to human capital management policies and practices that agencies like IRS have undertaken recently to improve their workforces' performance and accountability. He noted that IRS's recently acquired statutory flexibilities, such as a broadbanding pay system and an expedited and flexible hiring process, were instrumental to achieving the agency's transformation to a modern, business-like organization. He stressed the importance of providing additional flexibilities to federal agencies so that they can manage their workforces in a manner comparable to the private sector.

- In written comments (see app. IV), the Mint's Director stated that the report provides an objective, balanced review and assessment of the issues surrounding the implementation of human capital flexibilities. She commented that the report would serve as a useful tool that policymakers could use to guide federal agencies seeking to employ greater flexibilities to manage their workforces.
- VA provided comments by E-mail through its GAO liaison. VA agreed with the information presented and had no additional comments on the draft report.
- GSA's comments, provided by E-mail from its Office of Human Resources, were largely clarifying and technical in nature and did not express an overall opinion on the report. In a point similar to that made by Defense, GSA commented that our report should more fully draw attention to the drawbacks of telecommuting in our discussion of work-life programs. Again, we added clarifying text indicating that some managers and supervisors told us that telecommuting has not been shown to increase employee productivity and that telecommuting is not practical for all occupations or situations.
- In written comments from ITA (see app. V), the Under Secretary for International Trade said that the report thoroughly and comprehensively addresses the critical issue of the programs needed to manage the federal workforce. In addition, he emphasized the need for the additional flexibilities mentioned in the report.

We are sending copies of this report to the Chairman and Ranking Minority Member, House Committee on Government Reform, and its Subcommittee on Civil Service, Census and Agency Organization, and other interested

congressional parties. We will also send copies to the Director of OPM, the Secretary of Veterans Affairs, the Secretary of State, the Secretary of Commerce, the Secretary of the Air Force, the Secretary of the Treasury, and the Administrator of GSA. We also will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you have any questions about this report, please contact me or Edward Stephenson on (202) 512-6806. Key contributors to this report are listed in appendix VI.

A handwritten signature in black ink that reads "J. Christopher Mihm". The signature is written in a cursive style with a large, stylized initial "J" and a prominent "M".

J. Christopher Mihm
Director, Strategic Issues

Objectives, Scope, and Methodology

The objectives for this study were to provide information on

- agency officials' and union representatives' views on (1) the most effective flexibilities for managing their workforces, (2) additional flexibilities that would be the most helpful in managing their workforces, and (3) whether employee rights could be protected if additional flexibilities were authorized and implemented within agencies and
- key practices that agencies should implement for effective use of human capital flexibilities, along with specific examples of such practices from selected agencies.

To respond to the objectives of this report, we conducted this work in two phases and gathered information from a variety of sources using several different data collection techniques. During phase one of this review, which was completed from May to December 2001, we first interviewed representatives from OPM, the federal government's human resources agency; MSPB, a federal agency that hears and decides civil service cases, reviews OPM regulations, and conducts studies of the federal government's merit systems; and NAPA, an independent, nonpartisan, nonprofit, congressionally chartered organization that assists federal, state, and local governments in improving their performance. We interviewed representatives of these three organizations to gather background information on the federal government's experiences with and use of human capital flexibilities and to obtain suggestions about which federal agencies we should consider for a more detailed review during phase two of our study. We also reviewed numerous reports issued by these organizations on governmentwide human capital issues and the use of various human capital flexibilities in federal agencies. In addition, we reviewed previous GAO reports on a broad range of human capital issues.

During phase one of this study, we also gathered information for our two objectives by conducting semistructured interviews with (1) the human resources directors of the 24 largest federal departments and agencies and (2) representatives from 4 national organizations representing federal employees and managers—National Treasury Employees Union, American Federation of Government Employees, National Association of Government Employees, and Senior Executives Association. To produce a general summary of the human resources directors' views, we first reviewed their responses to the open-ended questions we had posed to them. Based on our analysis of those responses, we identified a set of

recurring themes and then classified each director's responses in accord with these recurring themes. At least two staff reviewers collectively coded the responses from each of the 24 interviews and the coding was verified when entered into a database we created for our analysis.

During phase two of this study, which was done from January to May 2002, we conducted semistructured interviews with managers and supervisors, human resources officials, and local union representatives from seven federal agencies we selected for more detailed review—the Air Force, GSA, IRS, ITA, the Mint, State, and VBA. We interviewed over 200 officials at these seven agencies. Our interviews with these agency and union officials focused on their views about the most effective flexibilities, additional flexibilities needed, and protection of employee rights. We also asked these officials to confirm and provide examples of the key practices we had identified on the basis of our interviews with the human resources directors and our related human capital work. To produce a general summary of these agency and union officials' views, a staff reviewer coded their responses to our questions according to the recurring themes we had developed. A separate reviewer verified the coding when entering the information into the database we created for our analysis. We sought to obtain views from a broad and diverse set of officials who would have relevant knowledge and experience regarding human capital flexibilities. We did not employ random selection in our choice of individuals to interview; thus the responses we obtained should not be viewed as a representative sample of all managers and supervisors, human resources officials, or local union officials at the seven agencies.

We selected the seven agencies for various reasons, including their variety of existing human capital challenges and their range in use of available human capital flexibilities. Specifically, we included Air Force because the Department of Defense, Air Force's parent department, historically has represented a large percentage of civilian federal employees and we had previously reported that the Air Force lacked sufficient acquisition and logistic capabilities. We included GSA because it had displayed a high use of monetary incentives compared to other large federal agencies based on our review of data from OPM's Central Personnel Data File (CPDF). IRS was included based on congressional requesters' interest in including an agency with a strong union presence, and IRS was frequently cited as an agency that had recently received increased authority to implement a broad range of human capital flexibilities. ITA was included because the Department of Commerce, ITA's parent department, had shown a high use of monetary incentives, and we had previously reported that ITA lacked an

experienced staff to monitor and enforce trade agreements. We selected the Mint because it was originally a candidate to receive performance-based organization (PBO) status in the late 1990s and it continued to seek additional human capital flexibilities when it did not receive this PBO designation.³⁴ We selected State because our review of CPDF data showed it to be a low user of monetary incentives, and it had recently established an often-cited skills development program for its information technology employees. Lastly, we included VBA because the Department of Veterans Affairs, VBA's parent department, continued to actively seek authority for increased human capital flexibilities, and we had previously reported that VBA was lacking a sufficient workforce of skilled claims processors.

For the Air Force, we focused on work at Wright-Patterson Air Force Base in Dayton, Ohio, and Langley Air Force Base in Hampton, Virginia. For GSA, IRS, VBA, and the Mint, we focused our work at their field offices in the Philadelphia and San Francisco metropolitan areas. At State, we concentrated our work on the IRM Bureau, the Bureau of Administration, and the Bureau of Overseas Buildings Operations in Washington, D.C. At ITA, we focused our work primarily on the headquarters office in Washington, D.C. Our agency selection process was not designed to identify examples that could be considered representative of all the human capital flexibilities used at the seven agencies reviewed or the federal government as a whole.

In addition, we collected and analyzed data from CPDF on the extent of use of human capital flexibilities, both governmentwide and for the seven federal agencies we reviewed in more detail. We also collected and analyzed documents from the seven selected agencies on their experiences with and use of human capital flexibilities. We did not attempt to verify the usage data we gathered. We conducted our audit work in accordance with generally accepted government auditing standards.

³⁴A PBO is a discrete management unit that commits to clear management objectives, measurable goals, customer service standards, and specific targets for improved performance. In exchange for these commitments, the agency may be granted flexibilities to deviate from some governmentwide requirements, such as certain personnel and procurement processes.

Comments from the Office Personnel Management



OFFICE OF THE DIRECTOR

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, DC 20415-0001

SEP 23 2002

Mr. J. Christopher Mihm
Director, Strategic Issues
General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Mihm:

Thank you for providing the draft General Accounting Office (GAO) report entitled *Human Capital: Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces*. The Office of Personnel Management (OPM) has reviewed the draft report and is pleased to offer the following comments.

OPM has long been committed to the development and use of human capital flexibilities as a way to assist agencies in meeting their strategic goals. I am particularly pleased to see GAO issue this report at a time when agencies are working hard to pursue the President's Management Agenda, which calls for maximum use of human capital flexibilities as a way for agencies to accomplish their missions. OPM has the lead for developing criteria to measure agency success on the President's Human Capital Initiative, for providing tools and consultative services to help agencies succeed, and for evaluating agency progress. Thus, OPM plays a key leadership role in supporting the Agenda governmentwide as the managing partner of the Human Capital component of the Agenda, and we welcome GAO's endorsement of the President's approach.

Beyond carrying out important human capital management outreach and assistance activities, we have examined our regulations and guidance to identify areas where increased flexibility is appropriate and could support agencies' human capital efforts. We have also aggressively publicized those flexibilities in our day-to-day dealings with agencies and through publications such as *Human Resources Flexibilities and Authorities in the Federal Government*.

We are also delighted the report clearly acknowledges the need for even greater flexibility in our more fundamental HR systems in those cases where existing law constrains OPM in providing policies and programs to help agencies accomplish their missions most effectively. In some areas, legislative changes will be required to maximize agencies' ability to adopt and implement the additional flexibilities needed to recruit, manage, and retain the best and brightest of America's talent for the public workforce. OPM supports the legislative proposals forwarded in the President's Managerial Flexibility Act to improve human capital management throughout the Federal Government. Our key priorities for improving Federal human capital management systems further are in two of those fundamental areas you report as requiring more flexibility: compensation and hiring. In addition, we are working with the Administration in support of Homeland Security legislation that would broaden and maximize human capital flexibilities and equip the new Department with the tools to become a world-class organization.

CON 131-64-4
September 1993

Appendix II
Comments from the Office Personnel
Management

Mr. J. Christopher Mihm

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We commend GAO's continuing work to recognize effective human capital management as an integral part of agencies' efforts to achieve their missions. GAO's exposure draft, *A Model of Strategic Human Capital Management*, provides a well-thought-out model for agency use. As you know, OPM is working with GAO to incorporate this model into the Human Capital Assessment and Accountability Framework, which agencies will use in achieving the goals articulated in the President's Management Agenda.

Our review of the present draft report revealed a few areas where we could offer technical observations and suggestions on its descriptions of the available flexibilities to improve their accuracy. Those comments are enclosed.

OPM appreciates your support as we continue to provide leadership to identify and promote the use of human capital flexibilities. We look forward to continuing our work together in this arena. I remain convinced that effective human capital management is the key to realizing the President's vision of a citizen-centered, results-oriented, and market-based Government.

Sincerely,



Kay Coles James
Director

Enclosure

Comments from the Internal Revenue Service



COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

October 2, 2002

Mr. J. Christopher Mihm
Director, Strategic Issues
United States General Accounting Office
Washington, DC 20548

Dear Mr. Mihm:

I have reviewed your draft report entitled "Human Capital – Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces". Your report accurately underscores the importance of Federal agencies' use of human capital flexibilities to effectively accomplish their mission.

I generally agree with the list of human capital flexibilities that agency officials (including IRS supervisors and managers) and union representatives cited as most helpful for managing their workforce. Still, I believe that the identified flexibilities may not be as important in the long run as some of the more deep-rooted changes to human capital management policies and practices that agencies like IRS have undertaken recently to improve their workforce's performance and accountability.

The IRS Restructuring and Reform Act of 1998 provided IRS a number of new and expanded flexibilities such as paybanding, streamlined critical pay authority, expedited and flexible hiring process, redesigned performance management system, and enhanced recruitment, relocation, retention and performance incentives. The new flexibilities have allowed us to improve recruitment quality and timeliness, reshape the workforce, increase its capacity, strengthen the connection between pay and performance, and establish a clearer job and mission alignment with greater accountability from the front-line employee to the most senior executive. From a human capital standpoint, we have shifted our organizational culture from a seniority-based to a performance-based paradigm that emphasizes and rewards high performance and accountability. Although the full effect of these new practices and changes will take place over many years, it is evident today that the IRS has unmistakably become a more efficient, effective, and customer-oriented organization.

The new statutory flexibilities were clearly instrumental to achieving our massive transformation (within 26 months) from a 50-year old overly complex and inefficient organizational structure of districts, service centers, regions, and a large national operational office to a modern, business-like organization. This huge effort culminated with no significant disruption of service to the public and resulted in the effective placement or voluntary separation of nearly all employees whose positions were eliminated. Without the broad flexibilities available to us, we would not have been as

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timely and successful in meeting our statutory mandate to improve and modernize virtually every aspect of our organizational structure and mission. In particular, the new flexibilities have enabled IRS to:

- Flatten its organizational structure and realign all 100,000 employees into a new streamlined one organized around taxpayer groups.
- Decrease the number of management layers by 50 percent in major field organizations.
- Reduce the number of mid-and top-level managers by over 350, or 20 percent overall.
- Devise a transition strategy that required 2,000 executives and managers to compete for 1,600 new positions with more rigorous job requirements.
- Fill over 3,500 new front-line tax administration and customer service positions in a timely manner with top-notch people.

The IRS has gained immensely by drawing upon the best practices from the outside since there are many similarities between IRS activities and those of other private and public sector organizations. We have selectively recruited external senior executives with lifetime experience in private-sector organizations to complement our exceptional corps of Federal executives. This infusion of talent brings in irreplaceable experience in management to the IRS, particularly in areas requiring a high level of expertise in systems modernization, leading large-scale organizational change, and improving our ability to communicate effectively with our stakeholders.

In view of our extremely positive experience with our statutory provided human capital flexibilities, I would like to stress how important it is to continue providing additional flexibilities to the IRS so it can manage its workforce in a manner comparable to the private sector. Our experience provides testimony that the availability of broad authority to tailor human capital management policies and practices to the organization's unique mission and human capital challenges is critical to bringing accountable, results-oriented management to the Federal government.

I sincerely appreciate IRS's inclusion in this important case study and to have the opportunity to comment on the results. If you have questions, please contact Ronald Sanders, Chief Human Resource Officer, at (202) 283-9200.

Sincerely,


Charles O. Rossotti

Comments from the U.S. Mint



DEPARTMENT OF THE TREASURY
UNITED STATES MINT
WASHINGTON, D.C. 20220

DIRECTOR
OF THE
MINT

September 19, 2002

Mr. J. Christopher Mihm
Director, Strategic Issues
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C.

Dear Mr. Mihm:

We have reviewed the General Accounting Office's (GAO) draft report, "Human Capital – Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces," and generally concur with the overall observations and conclusions, as well as with the specific Mint references.

The report identifies key practices that agencies should implement for effective human capital management, such as strategic planning, ensuring employee input, and educating all employees regarding the use and availability of flexibilities. Cited benefits of human capital flexibilities include increased employee morale and productivity as well as improved agency procedures and controls for hiring hard-to-fill positions.

The report recognizes the United States Mint's efforts towards implementing effective human capital flexibilities, such as alternative work schedules, monetary and non-monetary incentive awards, the creation of a "human resources flexibilities team," actively seeking employee input, and the revision of personnel-related policies and procedures, and we are planning for gainsharing. While the Mint has implemented many of the flexibilities identified within the draft report, the experiences and successes of other agency practices will enable us to both enhance and expand our current flexibilities. The report provides an objective, balanced review and assessment of the issues surrounding the implementation of human capital flexibilities. We believe it will serve as a useful tool that policy makers can use to guide Federal agencies seeking to employ greater flexibilities to manage their workforces.

I would like to take this opportunity to extend our sincere appreciation to you and your colleagues in the General Accounting Office for their comprehensive assessment of this increasingly significant issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Henrietta Holsman Fore".

Henrietta Holsman Fore
Director
United States Mint

Comments from the International Trade Administration



UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for International Trade
Washington, D.C. 20230

SEP 27 2002

Mr. J. Christopher Mihm
Director, Strategic Issues
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Mihm:

Thank you for the draft GAO report, "Human Capital Flexibilities", and the opportunity to comment. The report thoroughly and comprehensively addresses the critical issue of the programs needed to manage the federal workforce.

We have no comment other than to emphasize the need for the additional flexibilities mentioned in the report. Human Resources offices are using available programs to the maximum extent possible, but need additional flexibilities to provide for effective recruitment, hiring, retention and management of our workforce.

We thank you for your work in producing this important report.

Sincerely,

A handwritten signature in black ink, appearing to read "Grant D. Aldonas".

Grant D. Aldonas



GAO Contacts and Staff Acknowledgments

GAO Contacts

J. Christopher Mihm or Edward Stephenson, (202) 512-6806

Acknowledgments

In addition to the persons named above, K. Scott Derrick, Charlesetta Bailey, Tom Beall, Ridge Bowman, Molly K. Gleeson, Judith Kordahl, Sylvia Shanks, Shelby D. Stephan, Gary Stofko, Mike Volpe, Gregory H. Wilmoth, and Scott Zuchorski made key contributions to this report.

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