

GAO

Testimony

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Committee on Armed Services, House of
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HUMAN CAPITAL

Improved Implementation of Safeguards and an Action Plan to Address Employee Concerns Could Increase Employee Acceptance of the National Security Personnel System

Statement of Brenda S. Farrell, Director
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GAO

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Highlights of [GAO-09-464T](#), a testimony before the Subcommittee on Readiness, Committee on Armed Services, House of Representatives

Why GAO Did This Study

The Department of Defense (DOD) is in the process of implementing its new human capital system for managing civilian personnel—the National Security Personnel System (NSPS). Key components of NSPS include compensation, classification, and performance management. Implementation of NSPS could have far-reaching implications, not just for DOD, but for civil service reform across the federal government. As of February 2009, about 205,000 civilian employees were under NSPS. Based on GAO's prior work reviewing performance management in the public sector, GAO developed an initial list of safeguards that NSPS should include to ensure it is fair, effective, and credible. In 2008, Congress directed GAO to evaluate, among other things, the extent DOD implemented accountability mechanisms, including those in 5 U.S.C. section 9902(b)(7) and other internal safeguards in NSPS.

This statement is based on GAO's September 2008 report, which determined (1) the extent to which DOD has implemented internal safeguards to ensure NSPS was fair, effective, and credible; and (2) how DOD civilians perceive NSPS and what actions DOD has taken to address these perceptions. For that report, GAO analyzed relevant documents and employee survey results; interviewed appropriate officials; and conducted discussion groups at 12 selected installations. GAO recommended ways to better address the safeguards and employee perceptions.

View [GAO-09-464T](#) or [key components](#). For more information, contact Brenda S. Farrell at (202) 512-3604 or farrellb@gao.gov.

HUMAN CAPITAL

Improved Implementation of Safeguards and an Action Plan to Address Employee Concerns Could Increase Employee Acceptance of the National Security Personnel System

What GAO Found

While DOD has taken some steps to implement internal safeguards to ensure that NSPS is fair, effective, and credible, in late 2008, GAO found that the implementation of three safeguards could be improved. First, DOD does not require a third party to analyze rating results for anomalies prior to finalizing ratings, and thus it does not have a process to determine whether ratings are nondiscriminatory before they are finalized. Without a predecisional analysis, employees may lack confidence in the fairness and credibility of NSPS. To address this finding, GAO recommended that DOD require predecisional demographic and other analysis; however, DOD did not concur, stating that a postdecisional analysis is more useful. GAO continues to believe this recommendation has merit. Second, the process lacks transparency because DOD does not require commands to publish final rating distributions, though doing so is recognized as a best practice by DOD. Without transparency over rating distributions, employees may not believe they are being rated fairly. To address this finding, GAO recommended that DOD require publication of overall final rating results. DOD concurred with this recommendation and in 2008 revised its guidance to require such publication. Third, NSPS guidance may discourage rating officials from making meaningful distinctions in employee ratings because it indicated that the majority of employees should be rated at the "3" level, on a scale of 1 to 5, resulting in a hesitancy to award ratings in other categories. Unless implementation of NSPS encourages meaningful distinctions in employee performance, employees may believe there is an unspoken forced distribution of ratings, and their confidence in the system will be undermined. To address this finding, GAO recommended that DOD encourage pay pools and supervisors to use all categories of ratings as appropriate. DOD partially concurred with this recommendation, but has not yet taken any action to implement it.

Although DOD employees under NSPS responded positively regarding some aspects of performance management, DOD does not have an action plan to address the generally negative employee perceptions of NSPS. According to DOD's survey of civilian employees, generally employees under NSPS are positive about some aspects of performance management, such as connecting pay to performance. However, employees who had the most experience under NSPS showed a negative movement in their perceptions. For example, the percent of NSPS employees who believe that NSPS will have a positive effect on DOD's personnel practices declined from an estimated 40 percent in 2006 to 23 percent in 2007. Some negative perceptions also emerged during discussion groups that GAO held. For example, employees and supervisors were concerned about the excessive amount of time required to navigate the process. While it is reasonable for DOD to allow employees some time to accept NSPS, not addressing persistent negative employee perceptions could jeopardize employee acceptance and successful implementation of NSPS. As a result, GAO recommended that DOD develop and implement an action plan to address employee concerns about NSPS. DOD partially concurred with GAO's recommendation, but has not yet developed an action plan.

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to discuss our most recent report on actions needed to improve the implementation of the Department of Defense's (DOD) new human capital system for managing civilian personnel—the National Security Personnel System (NSPS).¹ The implementation of NSPS could have far-reaching implications for civil service reform across the federal government, because NSPS could serve as a baseline for governmentwide transformation in human capital. Key components of NSPS include compensation, classification, and performance management. As you know, DOD is in the process of implementing NSPS, which, as of February 2009, had about 205,000 civilian employees under the system. On February 11, 2009, the House Armed Services Committee and this subcommittee asked DOD to halt conversions of any additional employees to NSPS until the administration and Congress could properly address the future of DOD's personnel management system. Further, DOD and the Office of Personnel Management announced on March 16, 2009, that they are going to review NSPS policies, regulations, and practices. According to DOD, the department has delayed any further transitions of employees into NSPS until at least October 2009—pending the outcome of its review.

Prior to the enactment of the NSPS legislation, we raised a number of critical issues, in a series of testimonies in 2003, about the proposed regulations for NSPS.² Since then, we have provided congressional committees with information and analyses on DOD's process to design its new personnel management system, the extent to which DOD's process reflects key practices for successful transformation, the need for internal controls and transparency of funding, and the most significant challenges

¹GAO, *Human Capital: DOD Needs to Improve Implementation of and Address Employee Concerns about Its National Security Personnel System*, [GAO-08-773](#) (Washington, D.C.: Sept. 10, 2008).

²GAO, *Defense Transformation: Preliminary Observations on DOD's Proposed Civilian Personnel Reforms*, [GAO-03-717T](#) (Washington, D.C.: Apr. 29, 2003); *Defense Transformation: DOD's Proposed Civilian Personnel Systems and Governmentwide Human Capital Reform*, [GAO-03-741T](#) (Washington, D.C.: May 1, 2003); and *Human Capital: Building on DOD's Reform Efforts to Foster Governmentwide Improvements*, [GAO-03-851T](#) (Washington, D.C.: June 4, 2003).

facing DOD in implementing NSPS.³ While GAO supports human capital reform in the federal government, how such reform is done, when it is done, and the basis upon which it is done can make all the difference in whether such efforts are successful. Specifically, we have noted in testimonies and reports that DOD and other federal agencies must ensure that performance management systems contain appropriate internal safeguards. Implementing internal safeguards is a way to ensure that pay-for-performance systems in the government are fair, effective, and credible. We developed an initial list of safeguards based on our extensive body of work looking at the performance management practices used by leading public sector organizations both in the United States and in other countries, as well as on our experiences in implementing a modern performance management system for staff at GAO.⁴ Additionally, the National Defense Authorization Act for Fiscal Year 2008 required us to determine the extent to which DOD had effectively incorporated certain specific accountability mechanisms and internal safeguards (both of which I refer to as safeguards) in NSPS and to assess employee attitudes toward NSPS.⁵ The safeguards we used in our review included the following:

- involve employees, their representatives, and other stakeholders in the design of the system, to include employees directly involved in validating any related implementation of the system;
- assure that the agency's performance management system links employee objectives to the agency's strategic plan, related goals, and desired outcomes;

³GAO, *Human Capital: DOD Needs Better Internal Controls and Visibility over Costs for Implementing Its National Security Personnel System*, [GAO-07-851](#) (Washington, D.C.: July 16, 2007); and *Human Capital: Observations on Final Regulations for DOD's National Security Personnel System*, [GAO-06-227T](#) (Washington, D.C.: Nov. 17, 2006).

⁴GAO, *Post-Hearing Questions for the Record Related to the Department of Defense's National Security Personnel System (NSPS)*, [GAO-06-582R](#) (Washington, D.C.: Mar. 24, 2006); and *Posthearing Questions Related to Strategic Human Capital Management*, [GAO-03-779R](#) (Washington, D.C.: May 22, 2003).

⁵Pub. L. No. 110-181, § 1106(c) (2008). Specifically, section 1106(c)(1)(B) directs GAO to conduct reviews in calendar years 2008-2010 to evaluate the extent to which the Department of Defense has effectively implemented accountability mechanisms, including those established in 5 U.S.C. section 9902(b)(7) and other internal safeguards. The accountability mechanisms specified in 5 U.S.C. section 9902(b)(7) include those that GAO previously identified as internal safeguards key to successful implementation of performance management systems.

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- implement a pay-for-performance evaluation system to better link individual pay to organizational performance, and provide an equitable method for appraising and compensating employees;
 - provide adequate training and retraining for supervisors, managers, and employees in the implementation and operation of the performance management system;
 - institute a process for ensuring ongoing performance feedback and dialogue between supervisors, managers, and employees throughout the appraisal period, and setting timetables for review;
 - assure that certain predecisional internal safeguards exist to help achieve consistency, equity, nondiscrimination, and nonpoliticization of the performance management process (e.g., independent reasonableness reviews by a third party or reviews of performance rating decisions, pay determinations, and promotions before they are finalized to ensure that they are merit-based, as well as pay panels who consider the results of the performance appraisal process and other information in connection with final pay decisions);
 - assure that there are reasonable transparency and appropriate accountability mechanisms in connection with the results of the performance management process, including periodic reports on internal assessments and employee survey results relating to performance management and individual pay decisions while protecting individual confidentiality;
 - assure that the agency's performance management system results in meaningful distinctions in individual employee performance; and
 - provide a means for ensuring that adequate agency resources are allocated for the design, implementation, and administration of the performance management system.

My statement focuses on the performance management aspect of NSPS—specifically (1) the extent to which DOD has implemented internal safeguards to ensure the fairness, effectiveness, and credibility of NSPS; and (2) how DOD civilian personnel perceive NSPS and what actions DOD has taken to address these perceptions. It is based on the work we conducted for our September 2008 report⁶ that was conducted in response to a mandate in the National Defense Authorization Act for Fiscal Year 2008. This mandate also directed us to continue examining DOD efforts in these areas for the next 2 years. We currently have ongoing work reviewing the implementation of NSPS for the second year, and we will

⁶GAO, *Human Capital: DOD Needs to Improve Implementation of and Address Employee Concerns about Its National Security Personnel System*. [GAO-08-773](#) (Washington, D.C.: Sept. 10, 2008).

also perform another review next year. To determine the extent to which DOD had implemented safeguards to ensure the fairness, effectiveness, and credibility of NSPS, we identified, as mentioned before, safeguards specified in the National Defense Authorization Act for Fiscal Year 2008, as well as other key internal safeguards that GAO had previously identified, and analyzed regulations and other guidance provided by officials in DOD and the four components' headquarters—the Army, Navy, Air Force, and Fourth Estate.⁷ We also reviewed documents, such as pay pool business rules and regulations, that we obtained during 12 site visits—3 for each component—to military installations. Further, we interviewed appropriate agency officials at various levels within DOD and conducted interviews with officials of various management levels at each site we visited. The sites were selected because they contained a large number or concentrated group of civilian employees that had been placed under NSPS and were geographically distributed throughout the United States. In addition, to determine how DOD civilian employees perceive NSPS, we analyzed the results of DOD's May 2006, November 2006, and May 2007 Status of Forces Survey of civilian employees—the most recent surveys available at the time of our review.⁸ These surveys gauge initial employee attitudes toward NSPS, and we began to identify changes in attitudes in our analysis. We also conducted small group discussions with employees and supervisors at each of the 12 sites we visited. While the information from our discussion groups is not generalizable to the entire population of DOD civilians, it provides valuable insight into civilians' perceptions about the implementation of NSPS. We conducted our work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁷The Department of the Navy's NSPS policies encompass Marine Corps civilians. The Fourth Estate includes all organizational entities in DOD that are not in the military departments or the combatant commands, for example, the Office of the Secretary of Defense, the Joint Staff, the Office of the DOD Inspector General, the defense agencies, and DOD field activities.

⁸The estimated percentages from the Status of Forces Survey of civilian employees are based on a 95 percent confidence interval and margin of error within +/-2 percent as reported in DOD's Defense Manpower Data Center's Status of Forces Survey of civilian employees. For further details about the survey, see [GAO-08-773](#).

DOD Has Taken Steps to Implement Internal Safeguards to Ensure Fairness of NSPS; However, Implementation of Three Safeguards Could Be Improved

While DOD has taken some steps to implement internal safeguards to ensure that the NSPS performance management system is fair, effective, and credible, we found in late 2008 that the implementation of three of these safeguards could be improved. Specifically, we reported that DOD had taken some steps to (1) involve employees in the system's design and implementation; (2) link employee objectives and the agency's strategic goals and mission; (3) train and retrain employees in the system's operation; (4) provide ongoing performance feedback between supervisors and employees; (5) better link individual pay to performance in an equitable manner; (6) allocate agency resources for the system's design, implementation, and administration; (7) include predecisional internal safeguards to determine whether rating results are consistent, equitable, and nondiscriminatory; (8) provide reasonable transparency of the system and its operation; and (9) impart meaningful distinctions in individual employee performance. For example, all 12 sites we visited trained employees on NSPS, and the DOD-wide tool used to compose self-assessments links employees' objectives to the commands' or agencies' strategic goals and mission. We believe continued monitoring of all of these safeguards is needed to ensure that DOD's actions are effective as implementation proceeds and more employees become covered by NSPS. We also determined that DOD could immediately improve its implementation of three safeguards: predecisional internal safeguards, reasonable transparency, and meaningful distinctions in employee performance. The following paragraphs discuss our findings related to these safeguards and the resulting recommendations we made.

- *Predecisional internal safeguard:* DOD lacks a process to determine whether NSPS rating results are nondiscriminatory before they are finalized because it does not require a third party to analyze the predecisional rating results for anomalies. According to officials from the NSPS central policy office, the Program Executive Office, DOD does not require a predecisional analysis because of concerns that employees might perceive that pay pool panels adjusted their results even if assessments did not warrant changes. Program Executive Office officials also stated that DOD's analysis of final results by demographics is sufficient to ensure fairness and nondiscrimination. However, the purpose of analyzing predecisional rating results is to identify any potential egregious decisions or investigate any potential problems, such as blatant discrimination, in a transparent manner before finalizing the ratings. The purpose is not to change the results to portray an "ideal" distribution, or to alter the outcome of the performance management process. In short, this type of analysis is not intended to change the rating results unless a mistake was identified. Instead, identifying an anomaly in the data prior to finalizing the

rating decisions would enable management to investigate the situation and determine whether the results accurately reflect the employees' performance or whether an outside factor is affecting the results. Until DOD conducts a predecisional analysis of the rating results to identify possible trends or anomalies, employees may lack confidence in the fairness and credibility of the system. We, therefore, recommended that DOD require a third party to perform predecisional demographic and other analysis as appropriate for pay pools decisions. DOD did not concur with this recommendation, noting, among other things, that postdecisional analysis of results is more useful to identify barriers and corrective actions. We continue to believe that our recommendation has merit and that identifying an anomaly in the ratings prior to finalizing them would allow management to investigate the situation and determine whether any non-merit-based factors contributed to the anomaly.

- *Reasonable transparency:* DOD's implementation of NSPS does not provide adequate transparency over its rating results to employees because it does not require commands or pay pools to publish their respective rating and share distributions to employees. While DOD suggests that distributing aggregate data to employees is an effective means for providing transparency, and NSPS program officials at all four components told us that publishing overall results is considered a best practice, 3 of the 12 sites we visited decided not to publish the overall final rating and share distribution results. Without transparency over rating and share distributions, employees may believe they are not being rated fairly, which ultimately can undermine their confidence in the system. To address this finding, we recommended that DOD require overall final rating results to be published. In commenting on a draft of this report, DOD concurred with this recommendation and, in 2008, revised its NSPS regulations and guidance to require commands to publish the final overall rating results.
- *Meaningful distinctions in employee performance:* NSPS performance management guidance may discourage rating officials from making meaningful distinctions in employee performance because this guidance emphasized that most employees should be evaluated as a "3" (or "valued performer") on a scale of 1 to 5. According to NSPS implementing issuance, rating results should be based on how well employees complete their job objectives using the performance indicators. Although DOD and most of the installations we visited emphasized that there was not a forced distribution of ratings, some pay pool panel members acknowledged that there was a hesitancy to award employee ratings in categories other than "3". Unless NSPS is implemented in a manner that encourages meaningful distinctions in employee ratings in accordance with employees'

performance, employees may believe they are not rated fairly and that there is an unspoken forced distribution of ratings, and their confidence in the system may be undermined. As a result, we recommended that DOD encourage pay pools and supervisors to use all categories of ratings as appropriate. In commenting on a draft of this report, DOD partially concurred with our recommendation to encourage pay pools and supervisors to use all categories of ratings as appropriate, but to date it has not taken any action to implement this recommendation.

DOD Civilian Employees View Some Aspects of NSPS Positively, but DOD Does Not Have a Plan to Address the Generally Negative Employee Perceptions of the System

Although DOD civilian employees under NSPS responded positively regarding some aspects of the NSPS performance management system, DOD does not have an action plan to address the generally negative employee perceptions of NSPS identified in both the department's Status of Forces Survey of civilian employees and discussion groups we held at 12 select installations. According to our analysis of DOD's survey from May 2007, NSPS employees expressed slightly more positive attitudes than their DOD colleagues who remain under the General Schedule system about some goals of performance management, such as connecting pay to performance and receiving feedback regularly. For example, an estimated 43 percent of NSPS employees compared to an estimated 25 percent of all other DOD employees said that pay raises depend on how well employees perform their jobs. However, responses from NSPS employees with the most experience under NSPS showed a downward movement in their attitude toward other elements of the system. For example, the estimated percentage of employees who agreed that their performance appraisal was a fair reflection of their performance declined from 67 percent in May 2006 to 52 percent in May 2007. In addition, the estimated percent of NSPS employees who believe that NSPS will have a positive effect on DOD's personnel practices dropped from 40 percent in May 2006 to 23 percent in May 2007. Our ongoing work on NSPS will review DOD's 2008 survey results.

Our discussion group meetings gave rise to views consistent with DOD's survey results. While some civilian employees and supervisors under NSPS seemed optimistic about the intent of the system, most of the DOD employees and supervisors we spoke with expressed a consistent set of wide-ranging concerns. Specifically, employees noted: (1) NSPS's negative effect on employee motivation and morale, (2) the excessive amount of time and effort required to navigate the performance management process, (3) the potential influence that employees' and supervisors' writing skills have on panels' assessments of employee ratings, (4) the lack of transparency and understanding of the pay pool panel process, and (5) the

rapid pace at which the system was implemented, which often resulted in employees feeling unprepared and unable to find answers to their questions. These negative attitudes are not surprising given that organizational transformations often entail fundamental and radical change that require an adjustment period to gain employee acceptance and trust.

To address employee attitudes and acceptance, the Office of Personnel Management issued guidance that recommends—and we believe it is a best practice—that agencies use employee survey results to provide feedback to employees and develop and implement an action plan that guides their efforts to address the results of employee assessments. However, according to Program Executive Office officials, DOD has not developed a specific action plan to address critical issues identified by employee perceptions, because they want employees to have more time under the system before making changes. Without such a plan, DOD is unable to make changes that address employee perceptions that could result in greater employee acceptance and, ultimately, the successful implementation of the performance management system.

We therefore recommended, in our September 2008 report,⁹ that DOD develop and implement a specific action plan to address employee perceptions of NSPS ascertained from DOD’s surveys and employee focus groups. The plan should include actions to mitigate employee concerns about, for example, the potential influence that employees’ and supervisors’ writing skills have on the panels’ assessment of employee ratings or other issues consistently identified by employees or supervisors. DOD partially concurred with our recommendation, noting that it will address areas of weakness identified in its comprehensive, in-progress evaluation of NSPS and that it is institutionalizing a continuous improvement strategy. To date, however, DOD has not developed an action plan.

Concluding Observations

DOD’s implementation of a more performance- and results-based personnel system has positioned the agency at the forefront of a significant transition facing the federal government. We recognize that DOD faces many challenges in implementing NSPS, as any organization would in implementing a large-scale organizational change. NSPS is a new

⁹[GAO-08-773](#).

program, and organizational change requires time for employees to accept. However, without a third party to analyze the predecisional results of the ratings, DOD cannot be certain that the NSPS performance management system is achieving consistency, equity, and nondiscrimination in the determination and assignment of employee ratings before those ratings are finalized. Similarly, unless DOD encourages pay pools to make meaningful distinctions in employee performance, as warranted by employees' performance as compared to the standards, employees may continue to feel devalued, which may result in deterioration of morale and motivation. Finally, until DOD develops an action plan and takes specific steps to mitigate negative employee perceptions of NSPS, DOD civilian employees will likely continue to question the fairness of their ratings and lack confidence in the system. The degree of ultimate success of NSPS is largely dependent upon the extent to which DOD incorporates these internal safeguards and addresses employee perceptions. Moving forward, as DOD and the Office of Personnel Management embark on a study of NSPS and review how NSPS operates and its underlying policies, DOD has a unique opportunity to consider our previous recommendations, as well as all of the internal safeguards key to ensuring that pay-for-performance systems in the government are fair, effective, and credible.

Mr. Chairman, this concludes my prepared statement. I would be happy to respond to any questions that you or members of the subcommittee may have at this time.

GAO Contact and Staff Acknowledgments

For further information about this testimony, please contact Brenda S. Farrell, Director, Defense Capabilities and Management, at (202) 512-3604, or farrellb@gao.gov. Key contributors to this statement include Ron Fecso (Chief Statistician), Marion Gatling (Assistant Director), Lori Atkinson, Renee Brown, Jennifer Harman, Ron La Due Lake, and Lonnie McAllister. Other contributors include William Colwell, Emily Gruenwald, and Wesley Johnson. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony.



Highlights of [GAO-08-773](#), a report to congressional committees

Why GAO Did This Study

The Department of Defense (DOD) has begun implementing the National Security Personnel System (NSPS), its new human capital system for managing civilian personnel performance. As of May 2008, about 182,000 civilian employees were under NSPS. DOD's implementation of NSPS will have far-reaching implications for DOD and civil service reform across the federal government. Based on our prior work looking at performance management in the public sector and DOD's challenges in implementing NSPS, GAO developed an initial list of safeguards that NSPS should include to ensure it is fair, effective, and credible. Congress required GAO to determine (1) the extent to which DOD has implemented internal safeguards to ensure the fairness, effectiveness, and credibility of NSPS; and (2) how DOD civilian personnel perceive NSPS and what actions DOD has taken to address these perceptions. To conduct this work, GAO analyzed relevant documents and employee survey results; interviewed appropriate officials; and conducted discussion groups with employees and supervisors at 12 selected installations.

What GAO Recommends

GAO is recommending that DOD improve the implementation of some safeguards and develop and implement an action plan to address employee concerns about NSPS. DOD generally concurred with our recommendations, with the exception of one requiring predecisional review of ratings.

To view the full product, including the scope and methodology, click on [GAO-08-773](#). For more information, contact Brenda S. Farrell at (202) 512-3604 or farrellb@gao.gov.

September 2008

HUMAN CAPITAL

DOD Needs to Improve Implementation of and Address Employee Concerns about Its National Security Personnel System

What GAO Found

While DOD has taken some steps to implement internal safeguards to ensure that NSPS is fair, effective, and credible, the implementation of some safeguards could be improved. Specifically, DOD has taken steps to (1) involve employees in the system's design and implementation, (2) link employee objectives and agency goals, (3) train employees on the system's operation, (4) require ongoing performance feedback between supervisors and employees, (5) better link individual pay to performance, (6) allocate agency resources for the system, (7) include predecisional safeguards to determine if rating results are fair and nondiscriminatory, (8) provide reasonable transparency, and (9) provide meaningful distinctions in employee performance. GAO believes continued monitoring of all of these safeguards is needed to ensure that DOD's actions are effective as more employees become covered by NSPS. GAO also determined that DOD could immediately improve its implementation of three safeguards. First, DOD does not require a third party to analyze rating results for anomalies prior to finalizing employee ratings, and therefore it is unable to determine whether ratings are fair and nondiscriminatory before they are finalized. Second, the process lacks transparency because DOD does not require commands to publish final rating distributions, though doing so is recognized as a best practice by DOD and GAO. Third, NSPS guidance may discourage rating officials from making meaningful distinctions in employee ratings because it indicated that the majority of employees should be rated at the "3" level, on a scale of 1 to 5, resulting in a hesitancy to award ratings in other categories. Without steps to improve implementation of these safeguards, employee confidence in the system will ultimately be undermined.

Although DOD employees under NSPS are positive regarding some aspects of performance management, DOD does not have an action plan to address the generally negative employee perceptions of NSPS. According to DOD's survey of civilian employees, employees under NSPS are positive about some aspects of performance management, such as connecting pay to performance. However, employees who had the most experience under NSPS showed a negative movement in their perceptions. For example, the percent of NSPS employees who believe that NSPS will have a positive effect on DOD's personnel practices declined from 40 percent in 2006 to 23 percent in 2007. Negative perceptions also emerged during discussion groups that GAO held. For example, employees and supervisors were concerned about the excessive amount of time required to navigate the process. Although the Office of Personnel Management issued guidance recommending that agencies use employee survey results to provide feedback to employees and implement an action plan to guide their efforts to address employee assessments, DOD has not developed an action plan to address employee perceptions. While it is reasonable for DOD to allow employees some time to accept NSPS because organizational changes often require time to adjust, it is prudent to address persistent negative employee perceptions. Without such a plan, DOD is unable to make changes that could result in greater employee acceptance of NSPS.

United States Government Accountability Office



Highlights of GAO-07-851, a report to congressional committees

Why GAO Did This Study

Given a large-scale organizational change initiative, such as the Department of Defense's (DOD) National Security Personnel System (NSPS), is a substantial commitment that will take years to complete, it is important that DOD and Congress be kept informed of the full cost of implementing NSPS. Under the Comptroller General's authority to conduct evaluations on his own initiative, GAO analyzed the extent to which DOD has (1) fully estimated total costs associated with the implementation of NSPS and (2) expended or obligated funds to design and implement NSPS through fiscal year 2006. GAO interviewed department officials and analyzed the NSPS Program Executive Office's (PEO), and the military services' and the Washington Headquarters Services' (hereafter referred to as the components) cost estimates and reports of expended and obligated funds.

What GAO Recommends

GAO recommends that DOD define all costs needed to manage NSPS, prepare a revised estimate of those costs for implementing the system in accordance with federal financial accounting standards, and develop a comprehensive oversight framework to ensure that all funds expended or obligated to design and implement NSPS are fully captured and reported. In reviewing a draft of this report, DOD generally concurred with GAO's recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-851.

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

July 2007

HUMAN CAPITAL

DOD Needs Better Internal Controls and Visibility over Costs for Implementing Its National Security Personnel System

What GAO Found

DOD's November 2005 estimate that it will cost \$158 million to implement NSPS does not include the full cost that the department expects to incur as a result of implementing the new system. Federal financial accounting standards state that reliable information on the costs of federal programs and activities is crucial for effective management of government operations and recommend that full costs of programs and their outputs be provided to assist Congress and executives in making informed decisions on program resources and to ensure that programs get expected and efficient results. The full cost includes both those costs specifically identifiable to carry out the program, or direct costs, and those costs that are common to multiple programs but cannot be specifically identified with any particular program, or indirect costs. While the standards emphasize that full cost information is essential for managing federal programs, their activities, and outputs, the standards also provide that items may be omitted from cost information if that omission would not change or influence the judgment of a reasonable person relying on the cost information. Based on GAO's review of documentation provided by DOD and discussions with department officials, GAO found that DOD's estimate includes some direct costs, such as the start-up and operation of the NSPS PEO and the development and delivery of new NSPS training courses, but it does not include other direct costs such as the full salary costs of all civilian and military personnel who directly support NSPS activities departmentwide. Before developing its estimate, DOD had not fully defined all the direct and indirect costs needed to manage the program. Without a better estimate, decision makers—within DOD and Congress—will not have complete information about whether adequate resources are being provided for implementing NSPS.

The total amount of funds DOD has expended or obligated to design and implement NSPS during fiscal years 2005 through 2006 cannot be determined because DOD has not established an oversight mechanism to ensure that these costs are fully captured. In May 2005, the NSPS Senior Executive established guidance for tracking and reporting NSPS implementation costs that requires the components to develop mechanisms to capture these costs and to report quarterly their costs to the NSPS PEO. However, this guidance does not define the direct and indirect costs DOD requires that the components capture. DOD's pervasive financial management deficiencies have been the basis for GAO's designation of this as a high-risk area since 1995. GAO's review of submitted reports from the components found that their official accounting systems do not capture the total funds expended or obligated to design and implement NSPS. Without an effective oversight mechanism to ensure that the official accounting systems capture all appropriate costs, DOD and Congress do not have visibility over the actual cost to design and implement NSPS.

United States Government Accountability Office



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

Why GAO Did This Study

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

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

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

www.gao.gov/cgi-bin/gettrpt?GAO-06-227T.

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

November 17, 2005

HUMAN CAPITAL

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

What GAO Found

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

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

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

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

United States Government Accountability Office



Highlights of GAO-05-730, a report to Congressional Committees

Why GAO Did This Study

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

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

What GAO Recommends

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

www.gao.gov/cgi-bin/gettrpt?GAO-05-730.

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

July 2005

HUMAN CAPITAL

DOD's National Security Personnel System Faces Implementation Challenges

What GAO Found

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

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

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

United States Government Accountability Office



Highlights of GAO-03-488, a report to congressional requesters

Why GAO Did This Study

The federal government is in a period of profound transition and faces an array of challenges and opportunities to enhance performance, ensure accountability, and position the nation for the future. High-performing organizations have found that to successfully transform themselves, they must often fundamentally change their cultures so that they are more results-oriented, customer-focused, and collaborative in nature. To foster such cultures, these organizations recognize that an effective performance management system can be a strategic tool to drive internal change and achieve desired results.

Based on previously issued reports on public sector organizations' approaches to reinforce individual accountability for results, GAO identified key practices that federal agencies can consider as they develop modern, effective, and credible performance management systems.

www.gao.gov/cgi-bin/getrpt?GAO-03-488.

To view the full report, including the scope and methodology, click on the link above. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

March 2003

RESULTS-ORIENTED CULTURES

Creating a Clear Linkage between Individual Performance and Organizational Success

What GAO Found

Public sector organizations both in the United States and abroad have implemented a selected, generally consistent set of key practices for effective performance management that collectively create a clear linkage—"line of sight"—between individual performance and organizational success. These key practices include the following.

- 1. Align individual performance expectations with organizational goals.** An explicit alignment helps individuals see the connection between their daily activities and organizational goals.
- 2. Connect performance expectations to crosscutting goals.** Placing an emphasis on collaboration, interaction, and teamwork across organizational boundaries helps strengthen accountability for results.
- 3. Provide and routinely use performance information to track organizational priorities.** Individuals use performance information to manage during the year, identify performance gaps, and pinpoint improvement opportunities.
- 4. Require follow-up actions to address organizational priorities.** By requiring and tracking follow-up actions on performance gaps, organizations underscore the importance of holding individuals accountable for making progress on their priorities.
- 5. Use competencies to provide a fuller assessment of performance.** Competencies define the skills and supporting behaviors that individuals need to effectively contribute to organizational results.
- 6. Link pay to individual and organizational performance.** Pay, incentive, and reward systems that link employee knowledge, skills, and contributions to organizational results are based on valid, reliable, and transparent performance management systems with adequate safeguards.
- 7. Make meaningful distinctions in performance.** Effective performance management systems strive to provide candid and constructive feedback and the necessary objective information and documentation to reward top performers and deal with poor performers.
- 8. Involve employees and stakeholders to gain ownership of performance management systems.** Early and direct involvement helps increase employees' and stakeholders' understanding and ownership of the system and belief in its fairness.
- 9. Maintain continuity during transitions.** Because cultural transformations take time, performance management systems reinforce accountability for change management and other organizational goals.

United States General Accounting Office

Related GAO Products

Human Capital: DOD Needs to Improve Implementation of and Address Employee Concerns about Its National Security Personnel System. [GAO-08-773](#). Washington, D.C.: September 10, 2008.

Human Capital: DOD Needs Better Internal Controls and Visibility over Costs for Implementing Its National Security Personnel System. [GAO-07-851](#). Washington, D.C.: July 16, 2007.

Post-Hearing Questions for the Record Related to the Department of Defense's National Security Personnel System (NSPS). [GAO-06-582R](#). Washington, D.C.: March 24, 2006.

Human Capital: Observations on Final Regulations for DOD's National Security Personnel System. [GAO-06-227T](#). Washington, D.C.: November 17, 2005.

Human Capital: Designing and Managing Market-Based and More Performance-Oriented Pay Systems. [GAO-05-1048T](#). Washington, D.C.: September 27, 2005.

Human Capital: DOD's National Security Personnel System Faces Implementation Challenges. [GAO-05-730](#). Washington, D.C.: July 14, 2005.

Questions for the Record Related to the Department of Defense's National Security Personnel System. [GAO-05-771R](#). Washington, D.C.: June 14, 2005.

Questions for the Record Regarding the Department of Defense's National Security Personnel System. [GAO-05-770R](#). Washington, D.C.: May 31, 2005.

Post-Hearing Questions Related to the Department of Defense's National Security Personnel System. [GAO-05-641R](#). Washington, D.C.: April 29, 2005.

Human Capital: Selected Agencies' Statutory Authorities Could Offer Options in Developing a Framework for Governmentwide Reform. [GAO-05-398R](#). Washington, D.C.: April 21, 2005.

Human Capital: Preliminary Observations on Proposed Regulations for DOD's National Security Personnel System. [GAO-05-559T](#). Washington, D.C.: April 14, 2005.

Human Capital: Preliminary Observations on Proposed Department of Defense National Security Personnel System Regulations. [GAO-05-517T](#). Washington, D.C.: April 12, 2005.

Human Capital: Preliminary Observations on Proposed DOD National Security Personnel System Regulations. [GAO-05-432T](#). Washington, D.C.: March 15, 2005.

Human Capital: Principles, Criteria, and Processes for Governmentwide Federal Human Capital Reform. [GAO-05-69SP](#). Washington, D.C.: December 1, 2004.

Human Capital: Implementing Pay for Performance at Selected Personnel Demonstration Projects. [GAO-04-83](#). Washington, D.C.: January 23, 2004.

Defense Transformation: DOD's Proposed Civilian Personnel System and Governmentwide Human Capital Reform. [GAO-03-741T](#). Washington, D.C.: May 1, 2003.

Human Capital: DOD's Civilian Personnel Strategic Management and the Proposed National Security Personnel System. [GAO-03-493T](#). Washington, D.C.: May 12, 2003.

Human Capital: Building on DOD's Reform Efforts to Foster Governmentwide Improvements. [GAO-03-851T](#). Washington, D.C.: June 4, 2003.

Results-Oriented Cultures: Creating a Clear Linkage between Individual Performance and Organizational Success. [GAO-03-488](#). Washington, D.C.: March 14, 2003.

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