



Testimony

Before the Subcommittee on Oversight of Government Management, Restructuring and the District of Columbia, Senate Committee on Governmental Affairs and the Subcommittee on Civil Service and Agency Organization, House Committee on Government Reform

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HUMAN CAPITAL

Major Human Capital Challenges at the Departments of Defense and State

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Abstract I appreciate the opportunity to appear before this joint hearing to discuss the human capital challenges confronting two key agencies in the national security establishment. As you are aware, GAO has been a leading promoter of more systematic attention toward human capital issues. I am particularly gratified to come before your Subcommittees as you have been committed advocates of our efforts, sponsoring much of our work in this area. The leadership provided by your Subcommittees has been especially important in focusing attention on the federal governments human capital challenges and in helping to lay the foundation for eventual human capital legislative reform. Senator Voinovich, your recent report, entitled inReport to the President: The Crisis in Human Capital,la captures in compelling terms both the urgency of the governments human capital problems and the opportunity that now exists to make the federal governments i.people managementls a top priority for both Congress and the new administration.		Monitoring Agency Acronym
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Chairman Voinovich, Chairman Scarborough, and Members of the Subcommittees:

I appreciate the opportunity to appear before this joint hearing to discuss the human capital challenges confronting two key agencies in the national security establishment. As you are aware, GAO has been a leading promoter of more systematic attention toward human capital issues. I am particularly gratified to come before your Subcommittees as you have been committed advocates of our efforts, sponsoring much of our work in this area. The leadership provided by your Subcommittees has been especially important in focusing attention on the federal government's human capital challenges and in helping to lay the foundation for eventual human capital legislative reform. Senator Voinovich, your recent report, entitled "Report to the President: The Crisis in Human Capital," captures in compelling terms both the urgency of the government's human capital problems and the opportunity that now exists to make the federal government's "people management" a top priority for both Congress and the new administration.¹

As you know, the U.S. Commission on National Security in the 21st Century has focused a key part of its analysis on human capital issues. The magnitude of the federal government's challenge in the human capital arena will take the dedicated efforts of many to catalog all the problems and correct the past neglect of "people management." The Congress, the Office of Management and Budget (OMB) and the Office of Personnel Management (OPM), special commissions and advisory groups, oversight agencies such as GAO and the inspector general offices, and the individual agencies themselves all have a role to play.

Over the past two years, our work on the major management challenges and program risks across the government has identified human capital as a primary factor affecting current and future agency performance. My statement today will address (1) the general issue of human capital issues in the federal government and (2) specific human capital challenges in the Departments of Defense and State.

SUMMARY

The human capital issues facing the Department of Defense and the Department of State are not fundamentally different from those facing other federal agencies today. In the wake of extensive downsizing over the last decade, agency workforces are experiencing significant imbalances in terms of shape, skills, and retirement eligibility, with the likelihood of a huge loss of personnel to retirement over the next few years and a resulting decline in the ability to accomplish agency missions. Yet, until recently, there has been very little action taken to address this problem.

While both the Department of Defense and the Department of State are beginning to address their human capital issues, each has a considerable way to go. Our review of their most recent performance reports and performance plans identified several areas

¹ *Report to the President: The Crisis in Human Capital*, report prepared by Senator George V. Voinovich, Chairman, Subcommittee on Oversight of Government Management, Restructuring, and the District of Columbia, Committee on Governmental Affairs, United States Senate, December 2000.

where additional efforts are needed. Although the specific problems in each agency are somewhat different, they all have a common origin—the lack of an overall strategic approach to the management of the workforce. Agencies must step up their efforts to identify current and future workforce needs, assess where they are relative to those needs, and develop strategies for addressing any related gaps. Such efforts should address workforce shape, skills, knowledge, and succession planning.

HUMAN CAPITAL: A GOVERNMENTWIDE HIGH RISK AREA

Strategic human capital management is a pervasive challenge throughout the federal government. The human capital problems of the Department of Defense and the Department of State can be seen as part of a broader pattern of human capital weaknesses that have eroded mission capabilities across the federal government. As you know, we recently designated human capital as a governmentwide high-risk area.² After a decade of government downsizing and curtailed investments in our vital “people” assets, it has become increasingly clear that today’s federal human capital strategies are not appropriately constituted to adequately meet current and emerging needs of government and its citizens in the most effective, efficient, and economical manner possible. While legislation and other actions have been put in place over the last decade to address most of the major management areas, such as financial management, information technology, and results-oriented management, human capital remains as the critical link to reforming and modernizing the federal government’s management practices. While my focus today will be on specific human capital issues, it is important to note that human capital has a pervasive impact on the organization, affecting virtually every aspect of operations. To a certain extent, any problem or management challenge that exists in an organization is likely to have some connection to human capital. Simply stated, human capital problems often lead to programmatic problems and increased risks.

Our work has found human capital challenges across the government in four key areas:

- Strategic human capital planning and organizational alignment,
- Leadership continuity and succession planning,
- Acquiring and developing staffs whose size, skills, and deployment meet agency needs, and
- Creating results-oriented organizational cultures.

Both State and Defense are facing significant challenges in each of these areas.

The Comptroller General recently testified before the Subcommittee on National Security, Veterans Affairs, and International Relations of the House Committee on Government Reform.³ He noted there were several areas where action was needed to shape an efficient and effective federal government for the 21st century, and help us meet the challenges to the well-being and financial security of the American people, address

² *High Risk Series: An Update* (GAO-01-263, January 2001).

³ *Major Management Challenges and Program Risks: Departments of Defense, State, and Veterans Affairs* (GAO-01-492T, March 7, 2001).

security threats facing our nation, and deal with the issues raised by global interdependence. One of the primary actions he cited was the urgent need to revamp the federal government's entire strategic approach to human capital (people) management before the erosion of government's capacity to perform more dramatically undermines agencies' abilities to efficiently and effectively serve the American people. In Senator Voinovich's *Report to the President*, he noted that the federal government was in dire need of a unified strategy to build and maintain a world-class civil service. These challenges, many of which have been long-standing in scope, also underscore the critical role that the principles of performance-based management, as embraced in the Government Performance and Results Act (GPRA), can play in successfully providing the products, services, and results that taxpayers expect.

HUMAN CAPITAL ISSUES IN THE DEPARTMENT OF DEFENSE

The last few decades of the 1900s have seen a dramatic shift in the position occupied by the Department of Defense vis-à-vis the rest of the government. Defense spending currently represents about 16 percent of the federal budget, down from about 50 percent in 1962. The DOD military and civilian workforce has been reduced by more than 1 million personnel from a high of 4.1 million in 1987 to about 3 million today. While it has come down considerably in size and proportion of the budget, it is still by far the largest employer in the government. Because it is the largest employer of federal employees in the competitive civil service, how DOD approaches human capital management sends important signals about trends and expectations for federal employment across government. Moreover, the role that DOD's workforce plays in support of our national security makes DOD's approach to managing its people a matter of fundamental public interest.

DOD uses the term "total force" to refer to the different categories of workers that it uses to accomplish its mission. The total force includes military personnel, both active duty and reserve, federal civilian personnel, and private-sector contract personnel. Each plays a vital role in our national defense, and each has undergone considerable change in roles over the last part of the 20th century. Since the end of the Cold War, the nation has become increasingly reliant upon the reserves and National Guard for performing various defense missions. The roles of the civilian and contractor workforce have also expanded, now including participation in combat functions. For example, available DOD reports show that over 5,000 DOD civilian employees and nearly 9,200 contractor personnel voluntarily deployed to the Persian Gulf area to support the military forces during the Gulf War.⁴

⁴ *DOD Force Mix Issues: Greater Reliance on Civilians in Support Roles Could Provide Significant Benefits* (GAO/NSIAD-95-5, October 19, 1994).

Internal Department of Defense Studies Identify Human Capital Practices That Need to Be Updated

A number of recent DOD studies have identified some fundamental problems regarding the Department's management of its human capital. In 1997, the 8th Quadrennial Review of Military Compensation noted that personnel costs represent nearly 50 percent of the defense budget, yet leaders in the Department of Defense have no institution-wide process for systematically examining future human resource needs or for translating those needs into a coherent strategy that supports DOD's overall strategic plan.⁵ In contrast, the Department's research, development, and procurement community—reflecting only 30 percent of the budget—uses a formal process and structure to present leaders with acquisition issues and solutions to support future operational needs.

Last year, the Defense Science Board task force reported a similar conclusion.⁶ The task force report stated that:

“Today there is no overarching framework within which the future DOD workforce is being planned aside from the planning conducted within the military services and ad hoc fora in the Office of the Secretary of Defense. An overarching strategic vision is needed that identifies the kind of capabilities, and the changes in human resources planning and programs that will be required. In short, the Department's force concept—embodied in *Joint Vision 2010*—needs to be linked to manpower requirements for the total force, military and civilian, public and private. (p. viii)”

The task force voiced a concern that today's force is merely what was “left over” from the drawdown, and states that more deliberate civilian and military force shaping is needed. It went on to warn that unless the Department makes changes in its personnel and compensation systems, the force will be unprepared for 21st century needs; quality people will not stay in sufficient numbers, and those who do will lack necessary skills and experience.

The task force identified key issues now evident across the total defense force. Within the civilian workforce, they cited:

- The insufficient number of properly trained candidates in the pipeline, an aging workforce with little turnover and limited professional development opportunities;
- The lack of a continuing professional development program for career civilian employees;
- The need for an integrated personnel management plan that includes accounting for the increasing use of private sector personnel; and
- The long confirmation cycle for political appointees.

⁵ Rewarding, Organizing and Managing People in the 21st Century: Time for a Strategic Approach (Report of the 8th Quadrennial Review of Military Compensation, June 30, 1997).

⁶ *Final Report of the Defense Science Board Task Force on Human Resources Strategy* (Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, February 28, 2000).

Within the military, they identified:

- Recruiting challenges and training and first-term attrition in enlisted grades;
- Retention of experienced individuals to fill key leadership, specialty, and technical positions in the non-commissioned officer corps;
- Improving job satisfaction, retention, and commitment to service within the junior officer grades; and
- Retention and professional development of the “best and brightest” within the senior officer grades, including flag rank.

The task force went on to recommend that the Department of Defense establish a strategic human resources plan encompassing all elements of the total force: military, civilian, and private sector personnel.

Defense Beginning to Address Human Capital Challenges, But Has a Long Way To Go

Given the large number of military and civilian personnel within the Department, human capital management represents a huge challenge that impacts virtually every major activity. Human capital challenges are involved to some extent in each of the six high risk areas we identified—financial management, information technology, acquisition, contracting, support infrastructure, and logistics. For example, in testimony last year before the Subcommittee on Government Management, Information, and Technology, House Committee on Government Reform, I noted that the government now spends more for services than any other acquisition category.⁷ This shift toward greater reliance on the private sector for professional, administrative, technical, and information management support will have a strong impact on the way in which human capital is used throughout the government, but particularly in DOD which is still the dominant purchaser in the federal community.

DOD is dealing with a variety of military personnel issues, such as shortages of junior officers for the career force, problems in retaining certain skills (such as intelligence analysts, computer programmers, aircraft mechanics, and pilots), and the military services’ failure to meet recruiting goals. The Department also faces significant challenges in managing its civilian workforce. The sizable reduction in civilian personnel since the end of the Cold War has led to an imbalance in shape, skills, experience, and retirement eligibility that is jeopardizing certain acquisition and logistics capabilities within DOD.

Many of the human capital problems that DOD is dealing with today are the result of its approach to downsizing in the early 1990s. While DOD’s approach to civilian force reductions was less oriented toward shaping the makeup of the workforce than was the approach it used to manage its military downsizing, it missed strategic planning opportunities in both arenas to move closer to a workforce that was balanced in terms of

⁷ *Federal Acquisition: Trends, Reforms, and Challenges* (GAO/T-OCG-00-7, March 16, 2000).

composition (active military, reserves, civilian employees, and contract personnel), skills, and experience.

Military Personnel

DOD has encountered considerable difficulties in recent years in achieving its desired military strength. The military services have struggled to meet recruiting goals, with 3 out of 4 services having missed their recruiting goals in the last several years due to factors such as the robust economy, lower propensity to join the military, low civilian unemployment, and high college attendance. With its attrition rate at an all-time high, DOD continues to lose more than one-third of its enlistees before they successfully complete their first-term of service. The services face shortages among junior officers, and problems in retaining intelligence analysts, computer programmers, and pilots. Reduced accessions during the drawdown have resulted in smaller year-groups from which to retain personnel for the career force. While overall retention rates have continued to be adequate, retention in certain skills and grade levels has been problematic.

To improve the results of its recruiting efforts, DOD has added more recruiters, increased advertising budgets, and increased enlistment bonuses. Notwithstanding these efforts, it is not clear what aspects of military service can be improved in order to increase retention in areas that are having problems. Additionally, DOD does not have a mechanism for determining which of its actions in the recruiting arena are responsible for its recent improvement in achieving its goals.

Much of DOD's force shape problems in the active duty military stem from the way in which it chose to absorb the force reductions at the end of the Cold War. DOD gave priority to achieving voluntary reductions and reducing new accessions. Between 1987 and 1992, active duty military end-strength levels decreased by 17 percent, while over the same period, the number of new recruits decreased by 35 percent.⁸ Our work at the beginning of the drawdown found that the services tended to use cut-backs on new recruits as a preferred downsizing tool because such actions could be implemented quickly and were seen as less disruptive to those members already in the force.⁹ However, over time, this approach can create significant distortions in the shape and experience of the force.

We recently reviewed DOD retention data and found that aggregate retention and continuation rates in 1996-98 (after the drawdown) were not significantly different from those before the drawdown (1988-90).¹⁰ Aggregate measures of retention, however, mask significant reductions that occurred among specific groups of military personnel in

⁸ Military Downsizing: Balancing Accessions and Losses is Key to Shaping the Future Force (GAO/NSIAD-93-241, September 30, 1993).

⁹ Enlisted Force Management: Past Practices and Future Challenges (GAO/NSIAD-91-48, January 22, 1991).

¹⁰ *Military Personnel: Systematic Analyses Needed to Monitor Retention in Key Careers and Occupations* (GAO/NSIAD-00-60, March 8, 2000).

different career stages and occupational specialties. Retention rates at the occupational level showed reductions in retention rates of 10 percent or more occurred among certain segments of the enlisted population. Two occupational areas involving technical skills—communications and intelligence and electrical and mechanical equipment repair—accounted for the majority of occupations with substantial enlisted retention rate reductions. The services have recently reported growing retention problems among pilots. The Air Force reported that the cumulative continuation rate among pilots (the likelihood that pilots who complete 6 years of service would go on to complete 11 years) dropped 41 percent from 1995 through 1998 (from 87 to 46 percent). Similarly, the Navy reported that cumulative aviation continuation rates decreased from about 50 percent in 1996 to about 32 percent in 1998. We are in the process of reviewing data from the 1999 DOD Survey of Active Duty Personnel to determine how the views, experiences, and retention intent of personnel in critical occupations differ from that of the rest of the force.

Civilian Personnel

DOD has undergone a sizeable reduction in its civilian workforce since the end of the Cold War, and additional reductions are expected at least through fiscal year 2005. Between fiscal years 1989 and 1999, DOD reduced its civilian workforce by about 400,000 positions, from approximately 1,117,000 to 714,000—a 36-percent reduction. President Clinton’s fiscal year 2001 budget request projected additional reductions in DOD’s civilian workforce down to a level of 637,500 by fiscal year 2005—a cumulative reduction of nearly 43 percent from the fiscal year 1989 level.

DOD’s approach to civilian downsizing in the early years relied primarily on voluntary turnover and retirements and varying freezes on hiring authority to achieve force reductions. DOD also used existing authority for early retirements to encourage voluntary separations at activities facing major reductions-in-force. The fiscal year 1993 National Defense Authorization Act authorized a number of transition assistance programs for civilian employees, including financial separation incentives—“buyouts”, to induce the voluntary separation of civilian employees. DOD has credited the use of these separation incentives, early retirement authority, and various job placement opportunities for enabling it to avoid nearly 200,000 involuntary demotions and separations.

While the tools available to DOD to manage its civilian downsizing helped mitigate the adverse effects of force reductions, DOD’s approach to civilian force reductions was not really oriented toward shaping the makeup of the workforce. During our work on the early phases of the DOD downsizing, some DOD officials voiced concerns about what was perceived to be a lack of attention to identifying and maintaining a balanced basic level of skills needed to maintain in-house capabilities as part of the defense industrial base.¹¹ “Institutional memory” provided by career civilians is particularly important in

¹¹ *Defense Force Management: Expanded Focus in Monitoring Civilian Force Reductions Is Needed* (GAO/T-NSIAD-92-19, March 18, 1992) and *Defense Force Management: Challenges Facing DOD As It Continues to Downsize Its Civilian Work Force* (GAO/NSIAD-93-123, February 12, 1993).

DOD because of the frequent rotation of military personnel and the short tenure of the average political appointee.

The consequences of the lack of attention to force shaping can be seen in the current age distribution of the DOD civilian workforce in comparison to the distribution at the start of the drawdown. There has been a strong shift toward an older workforce. Today's workforce is older and more experienced, but, not surprisingly, 58 percent of the workforce will be eligible for early or regular retirement in the next five years. Since 1989, there has been a 69 percent drop in the number of civilians with less than five years of service, but only a 4 percent drop in the number of civilians with 11-30 years of service. As of September 1999, only 6.4 percent of DOD's civilian workforce was under the age of 31, compared to about 17 percent in 1989.

The net effect is a workforce that is not balanced by age or experience and that puts at risk the orderly transfer of institutional knowledge. Although we cannot say what the appropriate balance between younger and older employees should be, the continuing increase in the number of retirement-age employees could make it difficult for DOD to infuse its workforce with new and creative ideas and develop the skilled civilian workers, managers, and leaders it will need to meet future mission requirements.

The problems I just described are even more severe in certain areas, such as acquisition. This is a part of the workforce that the United States has relied upon to maintain the technological superiority that plays an essential role in our national security strategy. Our nation's warfighters will continue to depend on technologically superior weapon systems provided by the acquisition system. Congress has also been concerned with the human capital issues in the acquisition workforce. For example, the Defense Authorization Act for Fiscal Year 1996 (P.L. 104-106), among other requirements, required DOD to submit a plan for a 25 percent reduction in the number of acquisition personnel employed at DOD's acquisition organizations by the beginning of fiscal year 2001. That plan fell short of what was needed in that it did not clearly define what constitutes the acquisition workforce and it did not ensure that organizations and functions were appropriately adjusted to achieve better program outcomes and not just "hollowed out."¹²

According to the Acquisition 2005 task force, the rate of reduction in the civilian Acquisition Workforce has substantially exceeded that of the rest of the DOD workforce.¹³ From September 1989 to September 1999, the civilian Acquisition Workforce has been reduced by almost 47 percent. This compares to a 37 percent decrease in the total DOD civilian workforce and a nearly 17 percent in the total federal civilian workforce. Eleven consecutive years of downsizing have produced serious imbalances in the skills and experience of the highly talented and specialized civilian acquisition workforce, putting DOD on the verge of a retirement-driven talent drain.

¹² *Defense Acquisition Organizations: Linking Workforce Reductions With Better Program Outcomes* (GAO/T-NSIAD-97-140, April 8, 1997).

¹³ *Shaping the Civilian Acquisition Workforce of the Future* (Final Report of the Acquisition 2005 Task Force to the Under Secretary of Defense, Acquisition, Technology, and Logistics and the Under Secretary of Defense, Personnel and Readiness, October 2000).

More than 50 percent of DOD's civilian Acquisition Workforce will be eligible to retire by 2005, and in some occupations, half the current employees will actually be gone by 2006.

Perhaps one of the more serious cases is the example that Senator Voinovich cited in his recent *Report to the President*. That case involved Wright-Patterson Air Force Base in Dayton, Ohio, headquarters of the Air Force Materiel Command, which employs over 10,000 civilian federal workers. It is an excellent example of the aging and skills imbalance currently affecting the defense workforce. Demographically, 60 percent of Wright-Patterson's civilian employees will be eligible for either early or regular retirement by 2005. Over and above the problem of continuity and succession, the Wright-Patterson example also demonstrates a growing skill imbalance among DOD's engineering workforce as the need for new skills emerge in areas such as space operations, lasers, optics, advanced materials, and directed energy fields.

GPRA Reports Identify Human Capital Issues at Defense

The strategic planning requirements of the Government Performance and Results Act provide a useful framework for agencies to integrate their human capital strategies with their strategic and programmatic planning—and in particular, to identify the workforce size, skills mix, and deployment needed for mission accomplishment and to create strategies to fill the gaps. However, while the agencies' fiscal year 2001 annual performance plans all included at least some discussion of human capital, the discussions varied widely in scope and specificity. In reviewing DOD's fiscal year 1999 GPRA performance report and fiscal year 2001 performance plan, we found several management challenges associated with human capital that were not adequately addressed.¹⁴

- One of DOD's key agency outcomes is to obtain military forces that are adequate in number, well qualified, and highly motivated. However, DOD's performance measures do not fully address the extent to which U.S. military forces are highly motivated or DOD's efforts to develop military personnel.
- The performance indicators used to assess tempo—the pace of operations for people and equipment—vary by service. However, they do not present a complete picture of tempo from the standpoint of the individual service member. Tempo is relevant to maintaining trained and ready forces because it has been cited as a reason for personnel leaving the military. Consequently, what is most relevant to service personnel and their families is the extent to which the individual is required to be away from home, rather than the more indirect measure of the extent to which units are deployed.
- DOD's stated combat readiness objective is aimed at being ready to fight and win two major theater wars or to conduct multiple operations other than war. However, its performance report and plan do not provide a complete picture of the forces and

¹⁴ *Observations on the Department of Defense's Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance Plan* (GAO/NSIAD-00-188R, June 30, 2000).

performance required to accomplish this and whether the desired objective is being achieved. For example, in its performance report and plan, DOD included measures for the level of combat forces, but not for support forces, although the report recognizes the existence of support force shortfalls and discusses Army plans for correcting them. As another example, the report does not discuss the long-standing training and readiness problems of the Army National Guard's 15 Enhanced Brigades.

- DOD has identified specific recruiting goals representing the projected number of new personnel needed each year to maintain statutorily defined military end-strengths and the proper distribution of grade levels. But because retention varies monthly, recruitment goals are adjusted over the year. That process yields a revised DOD-wide annual goal against which recruiting is evaluated. However, because DOD only reports a composite recruitment goal, the measures can mask significant differences in performance across the services.
- Over the last several years we have identified early attrition of first-term active duty personnel as a key problem. About one-third of new recruits fail to complete their obligated tour of duty. However, the DOD performance plan has still not incorporated any goals dealing with the early attrition problem.
- DOD goals for enlisted retention provide a picture of overall retention by service and term of enlistment. However, such aggregate measures may mask variations in retention by occupational area (e.g., pilots, mechanics, intelligence analysts, and computer programmers) and skill levels (e.g., mid-career non-commissioned officers and junior officers). As such, their goals provide only a partial measure of the military's ability to retain adequate numbers of qualified personnel.

We view these shortcomings in DOD's performance report and plans as a result of the lack of an overall, strategic approach to human capital planning. Considering the enormous changes that the DOD total workforce has undergone and continues to undergo, and the external pressures and demands that virtually all federal departments and agencies are experiencing, taking a strategic view of human capital becomes ever more crucial to organizational results. DOD will need to build a solid foundation in strategic planning and organizational alignment, leadership and succession planning, recruiting and training the best possible talent, and establishing a performance culture.

HUMAN CAPITAL ISSUES IN THE DEPARTMENT OF STATE

As the lead agency representing U.S. interests overseas, the Department of State is vested with a wide range of responsibilities. The successful practice of U.S. diplomacy is essential to ensuring security at home, laying the groundwork for better jobs and a higher standard of living, providing a healthier environment, and assuring safe travel and the ongoing conduct of business abroad. To help manage these responsibilities, State maintains an international network of operations through a cadre of about 28,000 employees deployed across 260 diplomatic and consular posts worldwide. The Secretary

of State has stated that the core of our overseas presence is a talented, highly trained, dedicated, and motivated staff. Yet, over the last few years, a number of studies and reviews have identified a range of human capital challenges and problems within the State Department that raise concerns about how effectively State is managing its people.

Although State has traditionally attracted some of the nation's most talented people, a 1999 Department-wide study by McKinsey and Company concluded that an increasingly competitive job market and expanded private sector opportunities for geographic mobility have drawn potential Foreign Service Officers into other professions.¹⁵ According to the study, the challenges that State faces in recruiting and retaining top-quality employees fall into several areas. These include the need for State to (1) establish a strong link between current performance and promotions, (2) improve the quality of life at overseas posts, and (3) improve the quality of its management.

In a November 1999 report, the Overseas Presence Advisory Panel also concluded that State needed to reform its human resource practices because it does not currently have the flexibility, resources, or strategic organization required to support its mission.¹⁶ The panel visited 23 overseas posts in conducting its work and found that personnel matters topped the list of issues discussed. The panel reported that employees were dissatisfied with evaluation processes, career advancement opportunities, sensitivity to lifestyle issues, the degree of autonomy and responsibility offered by their positions, and the quality of management. Employees wanted, among other things, more training in languages, leadership, and management. The panel recommended that State develop a comprehensive human resource strategy based on a detailed statement of its mission, definition of the work to be done, and identification of personnel requirements; and, that State develop and implement a recruitment strategy designed to fulfill these needs. This approach of strategically aligning human capital with organizational goals and objectives is consistent with our studies of best practices used by high performance organizations, and similar studies done by other organizations.

Yet another recent assessment comes from the Independent Task Force on State Department Reform, chaired by Frank Carlucci.¹⁷ The task force reported that resignations of foreign service generalists have doubled between 1994 and 2000, while resignations of foreign service specialists have quadrupled over the same period. They also note that declining applicant pools and rising attrition rates have left the State Department with workforce shortfalls, including a deficit of about 700 Foreign Service Officers, or nearly 15 percent of the requirement.

Failure to address human capital weaknesses in the Department of State could have a significant negative impact on U.S. interests. On June 15, 2000 State's Under Secretary for Management testified before the House Committee on International Relations. She

¹⁵ *The War for Talent: Maintaining a Strong Talent Pool* (McKinsey and Company report to the State Department, 1999).

¹⁶ *America's Overseas Presence in the 21st Century* (Overseas Presence Advisory Panel, 1999).

¹⁷ *State Department Reform* (Report to the President by the Independent Task Force on State Department Reform, co-sponsored by the Council on Foreign Relations and the Center for Strategic and International Studies, January 2001).

noted that the Overseas Presence Advisory Panel's report cited a number of serious problems, including outmoded human resources practices and competition from the private sector for talented staff, that threatened the effectiveness of our overseas presence. She stated that the U.S. was face to face with a crisis of "diplomatic readiness" and that the country risked relying on an ineffective, "hollow" diplomatic force to defend America's interests. She cited serious potential consequences:

- less effective representation and advocacy of U.S. interests abroad;
- a loss of U.S. exports, investments, and jobs;
- inadequate political and economic information, leading to unexpected crises;
- less effectiveness in promoting democracy and the rule of law;
- a weakening of the fight against international terrorism and drug trafficking; and
- a failure to provide U. S. citizens traveling abroad with the assistance they need.

State is Beginning to Address its Human Capital Problems,
But More Still Needs to be Done

We have not performed a comprehensive review of human capital issues at the State Department. However, according to State, it has begun to implement many of the recommendations stemming from the various studies. For example, it has started to develop a new, unified human resources strategy for the Department. The strategy will include a domestic and overseas staffing picture along with a 5-year projection based on State's overseas staffing model and bureau budget presentation documents. To improve the quality of life at its overseas posts, State has negotiated bilateral work agreements with 126 nations and is reviewing Department rules restricting employment opportunities for spouses of employees working overseas. It has also developed a pilot, 360-degree review process that will allow employees to give meaningful feedback on how their supervisors performed as leaders, managers, and mentors—in a nonthreatening and constructive fashion designed for personal and professional development. The Department also plans to expand leadership and management training, increase security training, reshape the reporting and policy functions, and examine ways of making the assignment process more responsive to management and employee needs. While these efforts indicate that State recognizes the importance of addressing human capital issues, much more still needs to be done.

According to the Office of Personnel Management, the State Department is using existing pay flexibilities to create incentives for learning.¹⁸ It pays retention allowances ranging from 5 to 15 percent to certain information technology workers who obtain job-related degrees and certifications. OPM reported that after 1 year of operation, this program has helped to significantly reduce turnover and increase the skills base of State's information technology workforce.

Like other federal agencies, State's staffing situation is likely to be exacerbated by a significant increase in civil service retirements over the next decade. In testimony in 1999 before the Subcommittee on International Operations, Senate Foreign Relations

¹⁸ Letter from OPM to GAO dated December 11, 2000.

Committee, the Under Secretary of State for Management projected that between 1998 and 2010, over 1,200 (24 percent) out of 5,000 Civil Service employees at State will become eligible to retire. This could undermine the continuity in State's senior level civil service management and policy positions. State officials are working on this continuity and succession problem and recently reported meeting their target for training employees in leadership and management to handle the expected increase in "baby boomer" retirements.

Issues related to the quality of life at overseas posts, career development opportunities, and talent management are hampering recruitment and retention of Foreign Service Officers. Efforts to determine the right size and composition of overseas posts have begun, but State faces challenges in aligning its workforce with new economic, political, security, and technological requirements. Also, staffing shortfalls are hampering counternarcotics programs and efforts to combat visa fraud.

GPRA Reports Identify Human Capital Issues at State

In reviewing State's fiscal year 1999 GPRA performance report and fiscal year 2001 performance plan, we found several management challenges associated with the hiring of staff that were not adequately addressed.¹⁹

- One of State's key performance goals associated with enhancing the ability of American citizens to travel and live abroad securely, involved reducing the number of parental child abduction cases per caseworker. However, State's performance report contained only a brief, generic explanation as to why it was unable to meet its target of 80 cases per officer. The report said simply that a request for additional full-time positions was not approved, hampering its ability to reduce caseload. State did not explain what efforts it made, if any, to reassign staff to work on this activity.
- State's performance plan listed improving the visa processing system and streamlining and developing a reasonable basis for visa workloads as a major management challenge. This area was also cited by State's Inspector General as a key management challenge. However, its plan did not contain any goals that specifically addressed issues identified by GAO and the Inspector General, such as insufficient staffing overseas.
- State noted it had met its target of increasing the number of authorized positions in selected global bureaus. However, since the Bureau of Personnel was not one of the six bureaus and offices included in the 2001 plan, there was no discussion of the Department-wide workforce plan or other agency-wide efforts to hire and retain staff with the needed skills. Separate submissions from various bureaus and offices will make it difficult to assess agency-wide progress.

¹⁹ Observations on the Department of State's Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance Plan (GAO/NSIAD-00-189R, June 30, 2000).

A management challenge identified by the State Inspector General involved the adequacy of training and preparation for both Foreign Service and Civil Service personnel. Inadequate training can have a strong impact on the ability of the agency to perform its mission. For example, the Under Secretary of State for Management testified that in 1998, almost 40 percent of language designated positions were filled with officers lacking the requisite skills.²⁰

State's Foreign Service Institute is the federal government's primary training institution for officers and support personnel of the foreign affairs community. In addition to State, the Institute provides training for employees from more than 40 other government agencies that have employees stationed abroad. State's Diplomatic Security Training Center also provides specialized training for diplomatic security agents to supplement training they receive from the Institute.

In recognizing the importance of training, the Under Secretary of State for Management noted that the Foreign Service Institute was offering more training than ever before. It was expanding language, area studies, and tradecraft training. They were also expanding "distance learning" allowing employees to receive training in the field as well as at the Institute.

State Department officials have indicated they are making progress toward identifying and measuring the knowledge and skills needed to support missions and goals. They told us that the agency completed a job analysis of its foreign service generalist corps in 1998 to identify the tasks and activities performed by those employees, as well as the human attributes and foreign language proficiency required for high performance. In addition, they reported completing an informal update of a baseline needs assessment for its diplomatic security agents in the mid-1980s. The agency officials also said that State had adopted OPM's leadership competencies for senior executives. State now measures employees' existing knowledge and skills by testing periodically for language proficiency, requiring certain employees to pass tests to fulfill agency certification requirements, and providing leaders access to 360-degree self-assessment instruments that allowed them to identify areas where they may need further development. New diplomatic security agents are required to achieve certain baseline test scores at the completion of their training programs. State is also developing competency-based models for several occupations—including passport agents, information technology support staff, and human resource management occupations—that will identify the competencies needed for high performance, measurement methods for determining the extent to which staff have these competencies, and suggested training courses and developmental activities.

State officials told us that they were also making progress implementing training programs that develop employees' knowledge and skills. They said the agency had an extensive training curriculum, which included profession-specific areas of study (e.g., acquisitions) and training on foreign languages, information technology, overseas

²⁰ Testimony of Under Secretary of State for Management Bonnie R. Cohen before the Subcommittee on International Operations, Senate Foreign Relations Committee, March 4, 1999.

briefings, leadership and management, and diplomatic security. The agency also required certain employees to complete specific training courses. For example, new diplomatic security agents received approximately 24 weeks of training in such areas as firearms, criminal investigations, and the law.

Department officials indicated that State was working on explicitly linking training to the agency's mission and strategic goals. They also reported that they had a variety of approaches to training evaluation in place or under development, such as feedback from units, end-of course evaluations, Inspector General reviews, and analysis of post-training assessment data.

CONCLUSION—HUMAN CAPITAL NEEDS TO BE VIEWED FROM A STRATEGIC STANDPOINT ACROSS THE GOVERNMENT

This brings me back to where I began. Longstanding inattention to the issue of human capital presents a significant risk across the federal government, not just at State and Defense. The Departments of State and Defense have each taken some action to begin addressing the various human capital challenges and problems that have been discussed here. However, much more needs to be done, not just by these two agencies, but by the entire federal government.

About a year ago, the Comptroller General testified before Senator Voinovich's Subcommittee.²¹ In addressing the issue of managing human capital in the 21st century, he stated that there was no time to waste—that changes in the demographics of the federal workforce, in the education and skills required of its workers, and in basic federal employment structures and arrangements were all continuing to unfold. None of that has changed, and in fact we are getting closer to the time when the federal government will experience an unprecedented loss of experience and talent. While GAO, your two Subcommittees, and others have sounded the alarm, there is still a long way to go. Agency management must accelerate the adoption of a strategic perspective with regard to its workforce.

The Comptroller General also made the point that one of the emerging challenges for new presidential appointees will be to add an understanding of the importance of human capital issues to their traditional policy portfolios. Senator Voinovich has taken the lead in requesting that we develop questions that could assist the Senate in determining nominees' views on these vital issues.²² However, as we have noted in other work, the typical political appointee requiring Senate confirmation serves for only around 2 years.²³ Given the customarily high turnover rate among political appointees, it is perhaps not surprising that most have tended to focus on managing their agencies for today, giving

²¹ *Human Capital: Managing Human Capital in the 21st Century* (GAO/T-GGD-00-77, March 9, 2000).

²² *Confirmation of Political Appointees: Eliciting Nominees' Views on Leadership and Management Issues* (GAO/GGD-00-174, August 11, 2000); *Potential Questions to Elicit Nominees' Views on Agencies' Management Challenges* (GAO-01-332R, January 18, 2001).

²³ *Political Appointees: Turnover Rates in Executive Schedule Positions Requiring Senate Confirmation* (GAO/GGD-94-115FS, April 21, 1994).

too little attention to preparing them for tomorrow. Consequently, the solution will not lie totally in the hands of political appointees. The continuity of effort needed to transform the government's management of its human capital must come from within the career force.

We developed a human capital self-assessment checklist based on our examination of current laws and regulations and our work with leading organizations in the private sector and among governments at the state and local levels as well as abroad.²⁴ This checklist was designed to help agency leaders conduct their own review of their human capital programs and provides a means for agency leaders to put the spotlight on improving the alignment of human capital management with strategic planning and core business practices. The checklist is not a set of performance criteria or measures. Instead, it is a framework or "line of inquiry" for federal agency leaders to follow in examining their agencies' human capital approaches and determining if they make sense in light of their organizations' missions, goals, and other needs and circumstances.

As we have previously reported, not all barriers to more effective strategic human capital management in the federal government stem from law or regulation.²⁵ Some arise out of long-standing perceptions about the limitations placed on agency officials' managerial prerogatives or basic philosophies about how people should be managed. In addition to assessing their human capital programs, agency management needs to be energetic and innovative in their use of the human capital flexibilities available to them. For example, potential flexibility in the "up or out" policies of the military and the foreign service can be examined as a way of minimizing the loss of personnel in whom a substantial investment has been made and who still have valuable contributions to make. Agencies need to use those flexibilities to create a performance culture that empowers and motivates employees while fostering responsibility, accountability, and fairness.

It is clear that OPM and OMB have substantial roles to play in fostering a more results-oriented approach to strategic human capital management across government. OPM has begun stressing to agencies the importance of integrating strategic human capital management into agency planning.²⁶ One publication that OPM developed, the *HR Innovator's Tool Kit*, includes nearly 100 tools and flexibilities available to agencies, such as recruiting bonuses and retention allowances.²⁷ To date, OMB has played a much more limited role in promoting strategic human capital management. However, OMB's role in setting governmentwide management priorities and defining resource allocations will be critical in inducing agencies to integrate strategic human capital management into their core business processes.

In addition, the audit and inspector general communities have a key role to play. In assessing agency and program performance, audit and inspection staffs should be

²⁴ *Human Capital: A Self-Assessment Checklist for Agency Leaders* (GAO/GGD-99-179, September 1999).

²⁵ *Transforming the Civil Service: Building the Workforce of the Future—Results of a GAO-Sponsored Symposium* (GAO/GGD-96-35, December 20, 1995).

²⁶ See OPM's *Strategic Human Resources Management: Aligning With the Mission* (U.S. Office of Personnel Management, September 1999).

²⁷ *HR Innovators' Tool Kit* (U.S. Office of Personnel Management).

particularly alert to strategic human capital issues. The direct link that the inspectors general have to the top management of their respective agencies put them in a good position to reinforce the need to pay more attention to the “people” side of the organization as a primary vehicle for improving effectiveness, efficiency, and economy of agency operations. Federal agencies need to develop better performance measures and link them to their incentive and reward systems to foster improved organizational, team, and individual performance.

The key first step in improving federal agencies’ human capital management is for agency management to focus on people as a strategic asset. Workforce planning is an essential step. Agencies need to determine their current and future workforce needs, assess how their current and anticipated future workforce compares to these needs, and develop effective strategies to fill the gaps. It will not be easy and it will not be quick—but it must proceed right away. We are running out of time.

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

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