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HUMAN CAPITAL

DHS Faces Challenges In Implementing Its New Personnel System



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Highlights of [GAO-04-790](#), a report to congressional requesters

Why GAO Did This Study

DHS was provided with significant flexibility to design a modern human capital management system. Its proposed system has both precedent-setting implications for the executive branch and far-reaching implications on how the department is managed. GAO reported in September 2003 that the effort to design the system was collaborative and consistent with positive elements of transformation. In February, March, and April 2004 we provided preliminary observations on the proposed human capital regulations.

Congressional requesters asked GAO to describe the infrastructure necessary for strategic human capital management and to assess the degree to which DHS has that infrastructure in place, which includes an analysis of the progress DHS has made in implementing the recommendations from our September 2003 report.

DHS generally agreed with the findings of our report and provided more current information that we incorporated. However, DHS was concerned about our use of results from a governmentwide survey gathered prior to the formation of the department. We use this data because it is the most current information available on the perceptions of employees currently in DHS and helps to illustrate the challenges facing DHS.

www.gao.gov/cgi-bin/getrpt?GAO-04-790.

To view the full product, 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.

HUMAN CAPITAL

DHS Faces Challenges in Implementing Its New Personnel System

What GAO Found

To date, DHS's actions in designing its human capital management system and its stated plans for future work on the system are helping to position the department for successful implementation. Nonetheless, the department is in the early stages of developing the infrastructure needed for implementing its new human capital management system.

- DHS has begun strategic human capital planning efforts at the headquarters level since the release of the department's overall strategic plan and the publication of proposed regulations for its new human capital management system. Strategic human capital planning efforts can enable DHS to remain aware of and be prepared for current and future needs as an organization. However, this will be more difficult because DHS has not yet been systematic or consistent in gathering relevant data on the successes or shortcomings of legacy component human capital approaches or current and future workforce challenges. Efforts are now under way to collect detailed human capital information and design a centralized information system so that such data can be gathered and reported at the departmentwide level.
- DHS and Office of Personnel Management leaders have consistently underscored their personal commitment to the design process. Continued leadership is necessary to marshal the capabilities required for the successful implementation of the department's new human capital management system. Sustained and committed leadership is required on multiple levels: securing appropriate resources for the design, implementation, and evaluation of the human capital management system; communicating with employees and their representatives about the new system and providing opportunities for feedback; training employees on the details of the new system; and continuing opportunities for employees and their representatives to participate in the design and implementation of the system.
- In its proposed regulations, DHS outlines its intention to implement key safeguards. For example, the DHS performance management system must comply with the merit system principles and avoid prohibited personnel practices; provide a means for employee involvement in the design and implementation of the system; and overall, be fair, credible, and transparent. The department also plans to align individual performance management with organizational goals and provide for reasonableness reviews of performance management decisions through its Performance Review Boards.

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United States General Accounting Office
Washington, D.C. 20548

June 18, 2004

The Honorable George V. Voinovich
Chairman, Subcommittee on Oversight of Government
Management, the Federal Workforce, and the
District of Columbia
Committee on Governmental Affairs
United States Senate

The Honorable Jo Ann Davis
Chairwoman, Subcommittee on Civil Service and
Agency Organization
Committee on Government Reform
United States House of Representatives

The creation of the Department of Homeland Security (DHS) is an historic opportunity for the federal government to fundamentally transform how the nation will protect itself from terrorism and other threats. DHS is in the early stages of transforming and integrating a disparate group of agencies with multiple missions, values, and cultures into a strong and effective cabinet department. Together with this unique opportunity, however, comes significant risk to the nation if this transformation is not implemented successfully. In fact, we designated this implementation and transformation as high risk in January 2003.¹

On February 20, 2004, the Secretary of DHS and the Director of the Office of Personnel Management (OPM) released proposed regulations for DHS's new human capital system. Among other things, the proposal establishes a pay for performance system, a new adverse actions and appeals process, and new labor relations rules. The regulations provided the broad outline of the DHS proposed system. As the system evolves, critical issues, such as how DHS will link individual performance expectations to DHS's mission and goals, how it will define performance expectations to promote individual accountability, and how it will continue to incorporate adequate safeguards to ensure fairness, will need to be addressed. Such detailed implementation policies and procedures will need to be developed in a transparent and inclusive manner as the system evolves.

¹U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Homeland Security*, [GAO-03-102](#) (Washington, D.C.: January 2003).

In light of the challenge to establish a modern strategic human capital management system in the department, you asked that we undertake a series of engagements to assess and assist DHS in its implementation efforts. As agreed with your office, this is the third of several studies in which we examine how DHS begins to implement its new human capital system. Our first report, issued in September 2003, described the process DHS put in place to design its human capital system and involve employees and analyzed the extent to which the process reflected what we found to be important elements of successful transformations.² We found that, to date, the design effort was collaborative and facilitated participation of employees from all levels of the department. The effort also generally reflected what we have found to be important elements of effective transformations. Second, we provided our preliminary observations on selected major provisions of the proposed human capital regulations in a testimony and two related items of correspondence providing answers to post-hearing questions.³ We found that many of the basic principles underlying the proposed regulations were consistent with proven approaches to strategic human capital management, and identified parts of the system that deserved further consideration.

As agreed with your offices, this third study describes the infrastructure necessary for strategic human capital management and assesses the degree to which DHS has that infrastructure in place, including progress DHS has made since our September 2003 report. More details on our scope and methodology can be found in appendix I and criteria used to evaluate the department's efforts are summarized in appendix II. We interviewed officials from DHS headquarters who are involved in designing the new human capital system. Human resource leaders from the five largest legacy components within DHS were also interviewed: the Transportation Security Administration (TSA), Federal Emergency Management Agency (FEMA), the organizations formerly known as the Immigration and Naturalization Service (INS) and the U.S. Customs Service (Customs), and

²U.S. General Accounting Office, *Human Capital: DHS Personnel System Design Effort Provides for Collaboration and Employee Participation*, [GAO-03-1099](#) (Washington, D.C.: Sept. 30, 2003).

³U.S. General Accounting Office, *Human Capital: Preliminary Observations on Proposed DHS Human Capital Regulations*, [GAO-04-479T](#) (Washington, D.C.: Feb. 25, 2004); *Posthearing Questions Related to Proposed Department of Homeland Security (DHS) Human Capital Regulations*, [GAO-04-570R](#) (Washington, D.C.: Mar. 22, 2004); and *Additional Posthearing Questions Related to Proposed Department of Homeland Security (DHS) Human Capital Regulations*, [GAO-04-617R](#) (Washington, D.C.: Apr. 30, 2004).

the U.S. Coast Guard. This work was conducted from March 2003 through March 2004 in Washington, D.C., and in accordance with generally accepted government auditing standards.

The analysis of DHS's effort to design a strategic human capital management system can be particularly instructive for future human capital management and integration initiatives within specific units of DHS. We have consistently supported the need for government transformation and the concept of modernizing federal human capital policies, as underscored in recent testimonies and our January 2003 report that described why strategic human capital management remains a governmentwide high-risk area.⁴ The DHS effort can also prove instructive as other agencies implement changes to their human capital management systems.

Results In Brief

DHS is in the early stages of developing the infrastructure needed for implementing its new human capital management system. At a minimum, this infrastructure includes a strategic human capital planning process that integrates the agency's human capital approaches with program goals, desired outcomes, and mission; the capabilities to effectively develop and implement a new human capital system; and a modern, effective, and credible performance management system that includes a set of institutional safeguards, including reasonable transparency and appropriate accountability mechanisms to ensure the fair, effective, and credible implementation of the new system. DHS's infrastructure development efforts include the following:

- DHS has begun strategic human capital planning efforts at the headquarters level since the release of the department's overall strategic plan and the publication of proposed regulations for its new human capital management system. In comparison, the five legacy agencies we studied each engage in strategic human capital planning activities, but their efforts vary in their level of detail, including the time frames covered by the plans and the degree to which future skill and

⁴U.S. General Accounting Office, *Human Capital: Building on DOD's Reform Effort to Foster Governmentwide Improvements*, [GAO-03-851T](#) (Washington, D.C.: June 4, 2003); *High-Risk Series: Strategic Human Capital Management*, [GAO-03-120](#) (Washington, D.C.: January 2003); and *Managing for Results: Using Strategic Human Capital Management to Drive Transformational Change*, [GAO-02-940T](#) (Washington, D.C.: July 15, 2002).

competency needs are identified. DHS has not yet systematically gathered relevant human capital data at the headquarters level. However, efforts are now under way to collect detailed human capital information and design a centralized information system so that such data can be gathered and reported at the departmentwide level. These strategic human capital planning efforts can enable DHS to remain aware of and be prepared for current and future needs as an organization.

- DHS and OPM leaders have consistently underscored their personal commitment to the design process. Sustained and committed leadership is required on multiple levels: securing appropriate resources for the design, implementation, and evaluation of the human capital management system; communicating with employees and their representatives about the new system and providing opportunities for feedback; training employees on the details of the new system; and continuing opportunities for employees and their representatives to participate in the design and implementation of the system. In light of this challenge, DHS formed three teams to implement the human capital regulations, each of which are co-led by professional staff from DHS headquarters and a component agency.
- In its proposed regulations, DHS outlines its intention to implement key safeguards. For example, the DHS performance management system must comply with the merit system principles and avoid prohibited personnel practices; provide a means for employee involvement in the design and implementation of the system; and overall, be fair, credible, and transparent. The department also plans to align individual performance management with organizational goals and provide for reasonableness reviews of performance management decisions through its Performance Review Boards.

The proposed DHS human capital management system has both significant precedent-setting implications for the executive branch and far-reaching implications for how the department is managed. However, 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. To date, DHS's actions in designing its human capital management system and its stated plans for future work on the system are helping to position the department for successful implementation.

In commenting on a draft of this report, DHS generally agreed with its findings. DHS comments provided more current information on implementation timelines and described further research conducted by the design teams between April and September 2003, which we have incorporated. In addition, DHS raised concerns about our use of data from the OPM governmentwide Federal Human Capital Survey (FHCS) since the survey was administered before the formation of DHS. Since the administration of the survey, DHS notes a significant amount of change has been made in the department. We agree that the department is making progress in designing its human capital system and outline in this report where the department is making strides. This report notes that the FHCS was conducted during the same time frame that the administration proposed legislation to form DHS. FHCS data are the most current information available on the perceptions of employees currently employed by DHS and are valuable because of their illustration of the challenges the department faces. DHS provided additional technical comments, which were incorporated where appropriate. Comments from DHS are provided in full in appendix III.

Background

Mission and Organization of DHS

The DHS strategic plan, released on February 23, 2004, includes the following mission statement: “We will lead the unified national effort to secure America. We will prevent and deter terrorist attacks and protect against and respond to threats and hazards to the nation. We will ensure safe and secure borders, welcome lawful immigrants and visitors, and promote the free-flow of commerce.” The strategic plan further identifies seven strategic goals: awareness, prevention, protection, response, recovery, service, and organizational excellence.

DHS is generally organized into four mission-related directorates: Border and Transportation Security, Emergency Preparedness and Response, Science and Technology, and Information Analysis and Infrastructure Protection. These directorates include the following legacy agencies:

- The Border and Transportation Security directorate consolidates the major border security and transportation operations under one roof, including legacy Customs, parts of the legacy INS, TSA, the Federal Law Enforcement Training Center, the Federal Protective Service, the Office

for Domestic Preparedness from the Department of Justice (DOJ), and part of the U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS). This directorate includes the newly formed Bureau of Immigration and Customs Enforcement (ICE) and the Bureau of Customs and Border Protection (CBP).

- The Emergency Preparedness and Response (EPR) directorate integrates domestic disaster preparedness training and government disaster response and includes FEMA, the Strategic National Stockpile, the National Disaster Medical System, the Nuclear Incident Response Team, the Domestic Emergency Support Teams from DOJ, and the National Domestic Preparedness Office from the Federal Bureau of Investigation (FBI).
- The Science and Technology directorate coordinates scientific and technological advantages for securing the homeland and includes the Chemical, Biological, Radiological, and Nuclear Countermeasures Programs, the Environmental Measurements Laboratory, the National Bio-Weapons Defense Analysis Center, and the Plum Island Animal Disease Center.
- The Information Analysis and Infrastructure Protection directorate accesses and analyzes intelligence, law enforcement data, and other information involving threats to homeland security and evaluates vulnerabilities from state and local agencies, the private sector, and federal agencies such as the Central Intelligence Agency, FBI, and the National Security Agency. It includes the Critical Infrastructure Assurance Office, the Federal Computer Incident Response Center, the National Communications System, the National Infrastructure Protection Center, and the energy security and assurance program activities of the Department of Energy.
- In addition to the mission directorates, the Management Directorate, led by the Undersecretary for Management, is responsible for integrating the activities of the Chief Financial Officer, the Chief Procurement Officer, the Chief Human Capital Officer, the Chief Information Officer, and the Chief of Administrative Services.

In addition to the four mission-related directorates, the U.S. Secret Service and the U.S. Coast Guard remain intact as distinct entities in DHS. The Bureau of Citizenship and Immigration Services, composed of legacy INS adjudications and benefits programs, reports to the Deputy Secretary.

DHS's People

DHS has just under 158,000 civilian employees.⁵ Of the civilian employees, a vast majority transferred from seven organizations: TSA, INS, Customs, FEMA, the U.S. Coast Guard, the Secret Service, and APHIS. Of the civilian employees who transferred from these seven organizations, approximately 90 percent are stationed outside the Washington, D.C. metropolitan area. These employees hold positions ranging from inspectors, investigators, police and intelligence to attorneys and administrative services.

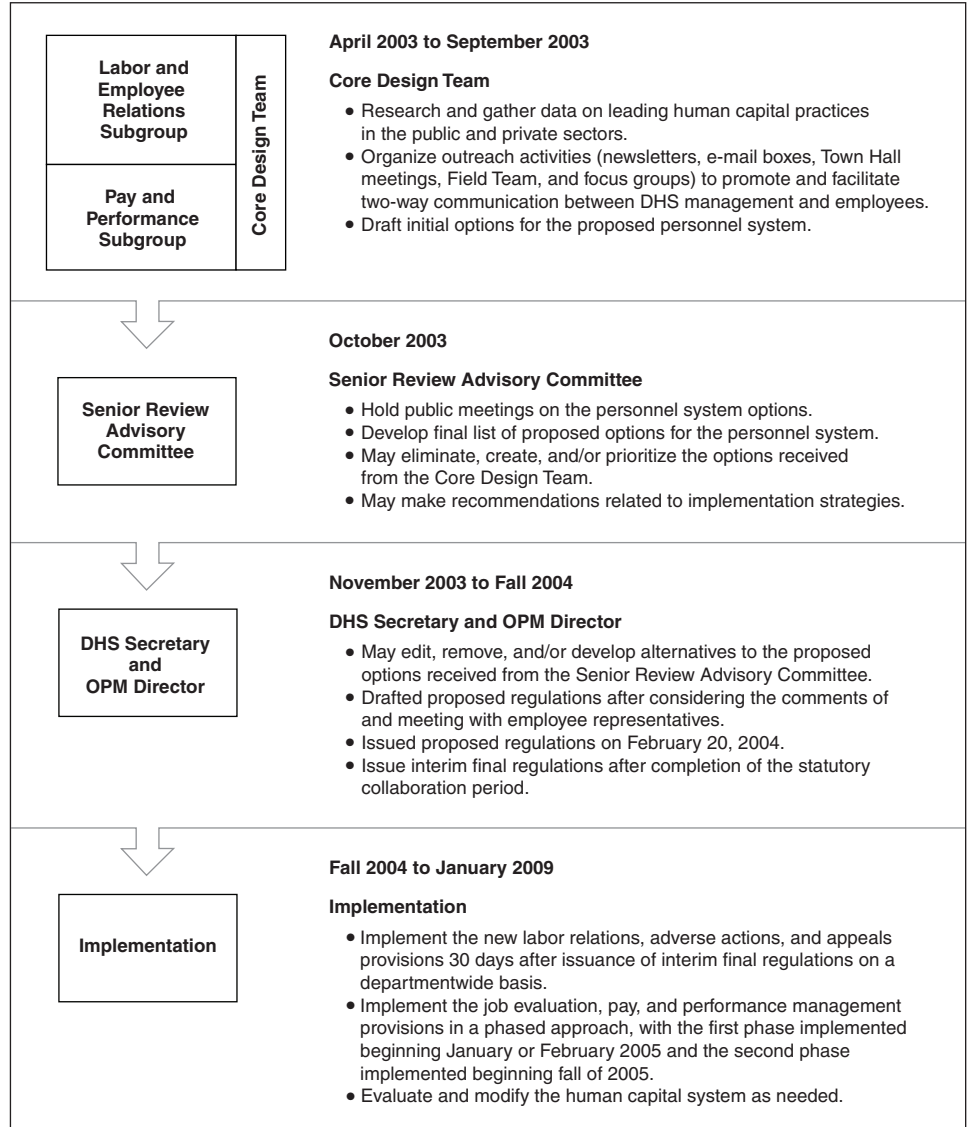
According to OPM, just over 49,000, or just under one-third, of DHS civilian employees are represented by unions. This includes 16 different unions divided into 75 separate bargaining units. The 3 unions representing the largest number of employees are the American Federation of Government Employees, the National Treasury Employees Union, and the National Association of Agricultural Employees.

Process Used to Design the Human Capital System

The design process of the DHS human capital management system included DHS and OPM employees and union representatives. Figure 1 describes the development of the DHS human capital system.

⁵According to OPM's Central Personnel Data File (CPDF), as of December 2003. This represents the number of DHS federal employees. For more information on the CPDF, see appendix I.

Figure 1: The Development of the DHS Human Capital System



Source: GAO.

DHS Is Beginning Strategic Human Capital Planning Efforts

Using the department's strategic plan as a starting point, DHS recently began drafting a strategic human capital plan and a more detailed workforce plan for the department. One of the goals of the strategic plan, organizational excellence, makes it a priority for the agency to value its people and create a culture that promotes a common identity, innovation, mutual respect, trust, accountability, and teamwork. To support the accomplishment of this goal, the department has an objective focused on ensuring effective recruitment, development, compensation, succession management, and leadership of a diverse workforce to provide optimal service at a responsible cost. While the plan broadly states a few strategies that could be used to achieve this objective, it does not identify the skills needed, resources required, or timetables associated with the strategies. Additional programmatic objectives within the strategic plan will require human capital approaches to ensure they are realized.

The Director for Human Resources Policy and the Senior Advisor for Human Resources Policy said that the strategic human capital plan will be completed later this spring and will include goals for transforming the human capital management of the department over the next 5 years. These same officials report that this will be a "living document" and expect that revisions will be made as they learn more about the human capital needs across the department.

Below the headquarters level, strategic human capital planning of different levels of detail is being done in the five legacy components we studied. These plans vary in terms of the time frame covered by the plan and the degree to which future skill and competency needs are identified.

- In July 2003, FEMA/EPR released a 5-year strategic human capital plan that identified the challenges it faces, improvement initiatives, and outcome measures for the initiatives. A timeline and the unit responsible for implementation are also identified. Part of FEMA's "Model for Success" articulates the need to identify strategic competencies. The plan states that FEMA intends to integrate its competency management system with future workforce planning efforts. According to agency officials, FEMA was invited to present its Competency Assessment System to the DHS Human Capital Management Forum and OPM.
- Customs/CBP workforce planning efforts are currently short-term and tactical in nature. The component does not have a consolidated plan

that identifies human capital needs or strategies and the planning horizon is less than 1 year in duration. Instead, CBP informally sets annual targets for various human capital activities that are articulated in various agency meetings and memoranda. Progress towards the targets is tracked in a biweekly report that includes information such as changes in staffing levels, retirement eligibilities, and the gender breakdown of the workforce.

- INS/ICE officials reported that they used workforce plans to respond to Congressional mandates in managing large-scale recruiting and retention efforts, beginning in 1996. It released a 3-year plan in June 1996 to manage this growth, placing a priority on deployment, recruiting, hiring, and training strategies. Since the original release of the plan, it has been updated annually through individual memoranda and charts reflecting current human capital data. According to an agency official, the component is working with a contractor to identify a baseline understanding of workforce demographics and skills and determine future workforce requirements.
- TSA hired a consultant in September 2003 to conduct a study of screener staffing levels at the nation's commercial airports in an effort to right-size and stabilize its screener workforce. Among the tasks the contractor is to complete are the implementation of a staffing analysis model to be used as a management tool to determine daily and weekly staffing levels and the deployment of the model to commercial airports nationwide.
- The Coast Guard has a 5-year strategic human capital plan covering the period 2001 to 2005 that integrates approaches for managing military, civilian, and reserve employees. Identified within the plan are current challenges and desired characteristics for the workforce of the future. Strategies are adjusted annually and the objectives and approaches are continuously evaluated for their impact so that midcourse corrections can be made if necessary, according to an agency official. The Coast Guard plans to do a major update of its plan once the department's human capital system is completed.

DHS headquarters has not yet been systematic or consistent in gathering relevant data on the successes or shortcomings of legacy component human capital approaches or current and future workforce challenges, despite the potential usefulness of this information to strategic human capital planning activities. Efforts are now under way to gather such data.

During the design process, from April through September 2003, the subgroups that identified options for the human capital system gathered an extensive amount of research on innovative practices outside of DHS and basic demographic data on employees in the department. DHS also reported that it gathered policy documents from legacy components and specifically noted meeting with TSA, Coast Guard, legacy Customs, and FEMA to understand their policies and practices. However, at a briefing for DHS stakeholders in August 2003, DHS and OPM officials said that they did not evaluate the successes or shortcomings of legacy agency human capital approaches or current and future workforce challenges, nor had they analyzed the results from the OPM FHCS.

The department is now beginning to collect more detailed, internal human capital data, according to one DHS official. With the support of a contractor, focus groups are planned for this summer so that human capital challenges can be identified and validated. According to the same official, the Chief Human Capital Officer is holding monthly meetings to spotlight the successful practices of components within the department and disseminate best practices. Moving forward, the department plans to design a centralized information system so that human capital data can be gathered and reported at the corporate level.

With this information, the department will be better positioned to conduct data-driven evaluations of the successes and shortcomings of its new human capital management system. DHS documents indicate that the department is committed to an ongoing comprehensive evaluation of the effectiveness of the human capital system. The department described efforts to identify human capital metrics and an intent to use employee surveys to gauge employee satisfaction and needs. We testified that DHS should consider doing evaluations that are broadly modeled on the evaluation requirements of the OPM demonstration projects.⁶ Under the demonstration project authority, OPM requires agencies to evaluate and periodically report on results, implementation of the demonstration project, cost and benefits, impacts on veterans and other equal employment opportunity groups, adherence to merit system principles, and the extent to which the lessons from the project can be applied governmentwide. A set of balanced measures addressing a range of results and customer, employee, and external partner issues may also prove beneficial. An evaluation such as this would facilitate congressional

⁶[GAO-04-479T](#).

oversight; allow for any midcourse corrections; assist DHS in benchmarking its progress with other efforts; and provide for documenting best practices and sharing lessons learned with employees; stakeholders; other federal agencies; and the public. We have reported on key principles for effective strategic human capital planning and the importance of data-driven human capital decision making (see app. II).⁷

Continued Leadership Is Necessary to Marshal the Capabilities Required for Successful Implementation

DHS and OPM leaders have consistently underscored their personal commitment to the design process and speak openly in support of it. As we have reported, this is a very positive start. DHS will need to sustain this effort to overcome the views reflected in the OPM FHCS,⁸ administered prior to the formation of DHS, in which employees now in the department responded with the following perceptions:

- 28 percent believe that leaders generate high levels of motivation and commitment in the workforce, compared to a governmentwide response of 36 percent;⁹
- 35 percent hold their leaders in high regard, compared to a governmentwide response of 43 percent; and
- 43 percent believe their organization's leaders maintain high standards of honesty and integrity, compared to a governmentwide response of 47 percent.

⁷U.S. General Accounting Office, *Human Capital: Key Principles for Effective Strategic Workforce Planning*, GAO-04-39 (Washington, D.C.: Dec. 11, 2003), and *A Model of Strategic Human Capital Management*, GAO-02-373SP (Washington, D.C.: Mar. 15, 2002).

⁸The DHS responses reported by the 2002 OPM FHCS approximate the views of some, but not all, employees now at DHS. For example, TSA screeners were not hired at the time of the survey. Also, though APHIS employees were divided between DHS and the U.S. Department of Agriculture (USDA), the APHIS respondents included those remaining at USDA. Additionally, the survey was conducted during the same time frame that the administration proposed legislation to form DHS; thus, the opinions expressed by the respondents to the survey were before the formation of DHS. The objective, scope, and methodology for the 2002 OPM FHCS is described in more detail in [GAO-04-479T](#).

⁹In all instances, comparing DHS's results to the OPM FHCS governmentwide average, DHS results are fewer by a statistically significant amount, according to analysis presented on OPM's Web site. Statistics are rounded to the nearest whole number. The governmentwide response includes all respondents except for those transferred to DHS.

Resources. DHS is recognizing that there are up-front costs to design and implementation and that its components are starting from different places regarding the maturity of their human capital management systems. Members of the Senior Review Advisory Committee agreed during their deliberations that creating the new human capital management system will require a substantial investment, and identified this as a core principle for the design of the system. Additionally, during the DHS focus groups, employees expressed an interest in increasing the resources available for training and professional development, and noted the importance of having an adequate budget for the performance management system in particular.¹⁰

The administration recognizes the importance of funding this major reform effort and has requested, for fiscal year 2005, \$102.5 million to fund training, the development of the performance management and compensation system, and contractor support, and over \$10 million for a performance pay fund in the first phase of implementation (affecting about 8,000 employees) to recognize those who meet or exceed expectations.¹¹ Approximately \$20 million was also requested to fund the development of a departmental human resources information technology system. While the investments are important to the ultimate success of DHS's efforts, it is equally important to recognize that certain costs are one-time in nature and, therefore, should not be built into the base of DHS's budget for future years.

Communication. In our September 2003 report, we commended the structured approach the department developed to communicate with stakeholders on the human capital system and recommended that the Secretary of DHS ensure that the message communicated across the department was consistent. Officials we interviewed in five legacy components of the department agreed that communication from DHS headquarters on the human capital system has been consistent. In particular, three noted that the information contained in the weekly departmental newsletter is helpful. As an example of the consistency of the communication on the new human capital management system,

¹⁰The objective, scope, and methodology for the DHS focus groups are described in more detail in [GAO-04-479T](#).

¹¹According to agency officials, the training costs do not include the time employees are expected to spend in training or the costs associated with using training resources already in the department.

between December 5, 2003 and February 27, 2004, employees were assured in five different newsletters that the new human capital system would not lead to a loss in pay or benefits and four different newsletters reported that no layoffs would result due to the implementation of the new system. To ensure the consistency of the message, a Communications Coordination Team, which includes members from across the department, has been established to disseminate information and promote a clear understanding of the new human capital system. This team meets biweekly or weekly and is co-chaired by the Director of Internal Communications and the Director of Human Resource Management.

In our September report we also recommended that the department maximize opportunities for two-way communication and employee involvement through the completion of the design process and implementation, and noted that special emphasis should be placed on seeking the feedback and buy-in of front-line employees in the field. Opportunities for two-way communication were limited between the conclusion of the town hall meetings in July 2003 and the publishing of the proposed regulations in February 2004. The primary means for employees to provide feedback was through the Human Resources Design Team e-mail box. Employees and the general public were also allowed to participate in the public comment period of the Senior Review Advisory Committee meetings in October 2003. While the department continued to consult intermittently with leaders of the three major unions during this period, one agency official noted that the department does not have a similar mechanism in place to obtain feedback from nonunionized employees. One action taken to overcome this challenge was the effort to notify employees how to comment on the proposed regulations, which was communicated in six different newsletters between February 13 and March 22, 2004. DHS received over 3,400 comments on its proposed regulations, in part due to its efforts to encourage employees to submit comments on the system.

Since the release of the proposed regulations, DHS has provided information to employees through a variety of formats. For example, a link to the proposed human capital regulations was placed in a prominent position on the intranet home page of the department for easy access. On February 13, 2004, a satellite broadcast outlined the major features of the human capital management system, reaching approximately 500 DHS locations around the country. During the broadcast, employees submitted questions, and those unable to view the broadcast could access it through the DHS Internet Web site. Additionally, a senior leadership conference

was held, in part, to brief executives on the proposed system. The department has developed tool kits to provide information to both executives and line managers about the changes and to provide them with talking points for discussion with their employees and developed a quad-fold to distribute to line employees containing questions and answers about the new system. Town hall meetings that were held around the country to mark the one-year anniversary of the department included discussions about the proposed human capital system. Finally, between February 13 and March 22, 2004, the time in which employees could submit comments on the proposed regulations, the weekly DHS newsletter included answers to commonly asked questions and details on what would be changed and remain the same under the proposal.

The success of DHS communication efforts is especially important, given employee responses to the OPM FHCS:

- 40 percent report that managers promote communication among different work units, which is less than the governmentwide response of 51 percent;
- 65 percent feel they have enough information to do their job well, which is less than the governmentwide response of 71 percent; and
- 37 percent are satisfied with the information they receive from management on what is going on in the organization, which is less than the governmentwide response of 45 percent.

Training. Members of the Senior Review Advisory Committee identified training and development as a critical component for implementing the human capital system. Furthermore, participants in the DHS focus groups expressed a need for training and professional development opportunities in a number of areas, including general supervisory capabilities, assessing employee performance, labor-management relations, and alternative dispute resolution. The DHS proposal correctly recognizes that a substantial investment in training is a key aspect of implementing a performance management system. The need for in-depth and varied training will continue as the system is implemented, as indicated by results from the OPM FHCS in which 53 percent of respondents believe supervisors/team leaders in their work unit encourage their development at work, which is less than the governmentwide response of 59 percent. Furthermore, 47 percent feel they are given a real opportunity to improve their skills, which is less than the governmentwide response of 57 percent.

Our recently released guides for agencies to help ensure investments in training and development are targeted strategically and could prove helpful to DHS as it develops its training and development programs.¹²

Employee Participation. The Undersecretary for Management has already noted her commitment to move forward on implementing the human capital system in a collaborative way, and reiterated that support in a December 19, 2003 memorandum to DHS employees regarding the human capital system. Regardless of whether it is a part of collective bargaining, involving employees in such important decisions as how they are deployed and how work is assigned is critical to the successful operations of the department. This is likely to be a significant challenge for the department in light of employee responses to the OPM FHCS in which 28 percent of DHS employees indicated a feeling of personal empowerment, which is fewer than the governmentwide response of 40 percent. Additionally, 44 percent of DHS employees reported satisfaction with their involvement in decisions that affect their work, compared to 53 percent governmentwide.

Implementation Teams. DHS formed three implementation teams at the end of February 2004 to support the design and implementation of the human capital management system because of the multiple areas that require management attention. This includes a Training and Communications team; a Pay, Performance, and Classification team; and a Labor Relations, Adverse Actions, and Appeals team. According to agency officials, the teams will initially focus their efforts on data collection and project planning activities until the department issues interim final regulations for the human capital management system, at which time the teams will begin to draft departmental policies to support implementation. Agency officials reported that, as they move forward, they will pay particular attention to how their decisions may affect other human capital approaches across the department.

The mission of the Training and Communications team is to develop comprehensive communication and training plans, coordinate and manage the development of training, coordinate the delivery of training, and to disseminate information related to the design and implementation of the

¹²U.S. General Accounting Office, *Human Capital: A Guide for Assessing Strategic Training and Development Efforts in the Federal Government*, GAO-04-546G (Washington, D.C.: March 2004); and *Human Capital: Selected Agencies' Experiences and Lessons Learned in Designing Training and Development Programs*, GAO-04-291 (Washington, D.C.: Jan. 30, 2004).

department's human capital system. The co-leads of the team said their work largely depends on the efforts of the other two implementation teams and acknowledged the concerns raised by employees on the need for training, especially for departmental managers. They also said they plan to rely on the training capacity already in the department. A second goal is for the team to ensure that communication with employees about the new human capital management system is coordinated and consistent across components and to ensure that avenues are available for DHS employees to communicate ideas to the implementation teams.

The mission of the Pay, Performance, and Classification team is to design departmental policies, procedures, guidance, implementation instructions, and evaluation criteria so that components can implement new systems in the areas of pay, performance management, and classification. The team is beginning its work by gathering information in these areas from departmental components and defining the system objectives. Officials noted this would be a significant challenge because of differences in the types of data collected, the varied manner in which the data are stored, and uneven levels of data reliability. As the team develops its proposals, it plans to use advisory groups to evaluate the efficacy of draft policies. Particular attention will be paid to ensuring there are adequate safeguards in the classification, pay, and performance management systems, according to officials.

The mission of the Labor Relations, Adverse Actions, and Appeals team is to prepare rules, regulations, policies, procedures, guidance, implementing instructions, and evaluation criteria for the department to deploy new systems in these areas. The co-leads noted that they intend to work collaboratively to design systems that encourage cooperation. These officials reported that their initial tasks are to explore how to staff different boards and panels identified in the proposed regulations and determine how to transition pending cases to the new system. They further plan to identify elements that require departmental-level guidance, identify elements where policy variation is appropriate among departmental components, and collect data on historical levels of grievances and appeals to forecast the potential workload once the department is transitioned to the new system.

The composition of the implementation teams sends an important signal. Each of the three implementation teams is co-led by professional staff from DHS headquarters and a component agency. As of mid-March 2004, officials noted the membership of the teams was still evolving, but was

composed mainly of human capital professionals. Agency officials noted that decisions had not yet been made about the level of involvement of union officials. These same officials reported that OPM staff would serve as advisers when needed as opposed to participating on a full-time basis, and noted an intention to pull together groups of employees to serve as “sounding boards and challenge groups” throughout the process. Contractors will be integrated with the teams to provide project management and other support.

As DHS moves forward, it may find helpful a set of key capabilities that our work has found to be central to the use of human capital authorities.¹³ These practices center on effective planning and targeted investments, employee training and participation, and accountability and cultural change (see app. II).

DHS Proposes Implementing Key Safeguards

In its proposed regulations, DHS outlines its intention to implement key safeguards that we have found essential to implementing performance management systems in a fair, effective, and credible manner. For example, the DHS performance management system must comply with the merit system principles and avoid prohibited personnel practices; provide a means for employee involvement in the design and implementation of the system; and overall, be fair, credible, and transparent. The department also plans to align individual performance management with organizational goals and provide for reasonableness reviews of performance management decisions through its Performance Review Boards. Moreover, employees and their union representatives played a role in shaping the design of the proposed systems. These safeguards are generally consistent with our work identifying key practices that leading public sector organizations here and abroad have used in their performance management systems to link organizational goals to individual performance and create a “line of sight” between an individual’s activities and organizational results (see app. II).¹⁴

¹³U.S. General Accounting Office, *Human Capital: Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces*, [GAO-03-2](#) (Washington, D.C.: Dec. 6, 2002).

¹⁴U.S. General Accounting Office, *Results-Oriented Cultures: Creating a Clear Linkage between Individual Performance and Organizational Success*, [GAO-03-488](#) (Washington, D.C.: Mar. 14, 2003).

Our February 2004 testimony identified additional steps DHS could take to build safeguards into its revised performance management system.¹⁵ For example, we suggested that DHS commit to publishing the results of the performance management process to assure reasonable transparency and provide appropriate accountability mechanisms in connection with the results of the performance management process. This can include publishing overall results of performance management and individual pay decisions while protecting individual confidentiality and reporting periodically on internal assessments and employee survey results relating to the performance management system. Publishing the results in a manner that protects individual confidentiality can provide employees with the information they need to better understand the performance management system.

Conclusions

The proposed DHS human capital management system has both significant precedent-setting implications for the executive branch and far-reaching implications on how the department is managed. However, 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. To date, DHS's actions in designing its human capital management system and its stated plans for future work on the system are positioning the department for successful implementation. Looking forward, DHS will need to make continued progress in a number of key areas including the following.

- Strategic workforce planning and the gathering of relevant human capital data – Strategic human capital planning activities can enable the department to capitalize on the strengths of its workforce and address challenges in a manner that is clearly linked to achieving DHS's mission and goals. The potential for human capital planning activities to positively impact the department, however, depends on its gathering of valid, reliable data on workforce demographics and the successes and shortcomings of new approaches at the headquarters level.
- Communication and training – As we previously noted, communicating with employees and their representatives about the new system and providing opportunities for feedback, placing a special emphasis on reaching out to line employees in the field, can facilitate gaining

¹⁵[GAO-04-479T](#).

employee buy-in to the new human capital management system. Additionally, the delivery of training on the new system can enable employees to understand their rights and how the agency will use its authority.

- Safeguards -- Publishing the results of the performance management process can provide employees with the information they need to better understand the performance management system and make the system more transparent.

Agency Comments and Our Evaluation

In commenting on a draft of this report, DHS generally agreed with its findings. DHS comments provided more current information on implementation timelines and described further research conducted by the design teams between April and September 2003, which we have incorporated. In addition, DHS raised concerns about our use of data from the OPM governmentwide FHCS since the survey was administered before the formation of DHS. Since the administration of the survey, DHS notes a significant amount of change has been made in the department. We agree that the department is making progress in designing its human capital system and outline in this report where the department is making strides. This report notes that the FHCS was conducted during the same time frame that the administration proposed legislation to form DHS. FHCS data are the most current information available on the perceptions of employees currently employed by DHS and are valuable because of their illustration of the challenges the department faces. DHS provided additional technical comments, which were incorporated where appropriate. Comments from DHS are provided in full in appendix III.

As agreed with your offices, unless you publicly release its contents earlier, we plan no further distribution of this report until 30 days from its date. At that time, we will send copies of this report to the Chairman and Ranking Minority Member, Senate Committee on Governmental Affairs; the Chairman and Ranking Minority Member, House Committee on Government Reform; the Chairman and Ranking Minority Member, House Select Committee on Homeland Security; and other interested congressional parties. We will also send copies to the Secretary of the Department of Homeland Security and the Director of the Office of Personnel Management. Copies will be made available at no charge on the GAO Web site at <http://www.gao.gov>.

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

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

J. Christopher Mihm
Managing Director, Strategic Issues

Scope and Methodology

Scope

This work was conducted from March 2003 through March 2004 in accordance with generally accepted government auditing standards. We performed our work in the Washington, D.C., metropolitan area in the headquarters offices of Department of Homeland Security (DHS) and the five largest legacy components that transferred to the department: The Transportation Security Administration (TSA), the Federal Emergency Management Agency (FEMA), the organizations formerly known as the Immigration and Naturalization Service (INS) and the U.S. Customs Service, and the U.S. Coast Guard.

Methodology

To address our objective, we examined the workforce planning efforts of the five largest legacy components that transferred to the department. Data on workforce planning and capabilities needed for successful human capital management were supplemented by information gathered in interviews with officials from DHS headquarters and the five legacy components. A standard set of questions was used for interviewing the legacy components. Interviews with the components were conducted between January and February 2004. Presentations made by DHS and the Office of Personnel Management (OPM) in August 2003 were evaluated to understand the level of data analysis conducted during system design. We were observers at the August 2003 briefing. We also examined the transcripts and report summarizing the proceedings of the Senior Review Advisory Committee meetings in October 2003 and relevant issues of the weekly DHS newsletter. Our findings were analyzed against criteria articulated in relevant GAO human capital reports.

To be responsive to your particular interest in seeking out and incorporating employee perspectives on the human capital system, we gathered information on employee perceptions from a variety of sources and presented these findings throughout the report. Insights into employee opinions were gathered from the OPM Federal Human Capital Survey, administered between May and August 2002, and a DHS report summarizing findings from the department's focus groups held during the summer of 2003. A description of the objective, scope, methodology, and limitations of these two studies was detailed in appendix I of *Human Capital: Preliminary Observations on Proposed DHS Human Capital Regulations* ([GAO-04-479T](#)).

In the background section of this report, we cite information from OPM's Central Personnel Data File (CPDF). The CPDF contains personnel data

Appendix I
Scope and Methodology

for most employees of the executive branch. The largest executive branch employee groups not included are in the intelligence agencies (CIA, etc.) and the Postal Service. Agencies submit data to the CPDF at the end of each fiscal quarter. We have found the CPDF to be sufficiently reliable for the purposes of this report.¹

¹U. S. General Accounting Office, *OPM's Central Personnel Data File: Data Appear Sufficiently Reliable to Meet Most Customer Needs*, [GAO/GGD-98-199](#) (Washington, D.C.: Sept. 30, 1998).

Criteria Used for Evaluation

The success of DHS's efforts to design and implement its new human capital system depends, in part, on building and maintaining an institutional infrastructure to make effective use of its flexibilities. At a minimum, this infrastructure includes a strategic human capital planning process that integrates the agency's human capital approaches with program goals, desired outcomes, and mission; the capabilities to effectively develop and implement a new human capital system; and a modern, effective, and credible performance management system that includes a set of institutional safeguards, including reasonable transparency and appropriate accountability mechanisms to ensure the fair, effective, and credible implementation of the new system.

Strategic Human Capital Planning

Strategic workforce planning is the first essential element of the institutional infrastructure that an agency needs to ensure that its human capital program capitalizes on its workforce's strengths and addresses related challenges in a manner that is clearly linked to achieving the agency's mission and goals. Strategic workforce planning addresses two critical needs: (1) aligning an organization's human capital programs with its current and emerging mission and programmatic goals and (2) developing long-term strategies for acquiring, developing, and retaining staff to achieve programmatic goals.¹

At its core, strategic workforce planning, also called human capital planning, focuses on developing long-term strategies for acquiring, developing, and retaining an organization's total workforce (including full- and part-time federal staff and contractors) to meet the needs of the future. We recently described five principles for strategic workforce planning.²

- Involve top management, employees, and other stakeholders in developing, communicating, and implementing the strategic workforce plan.
- Determine the critical skills and competencies that will be needed to achieve current and future programmatic results.

¹U.S. General Accounting Office. *Human Capital: Key Principles for Effective Strategic Workforce Planning*, [GAO-04-39](#) (Washington, D.C.: Dec. 11, 2003).

²[GAO-04-39](#).

- Develop strategies that are tailored to address gaps in the number and deployment of employees and the alignment of human capital approaches for enabling and sustaining the contributions of all critical skills and competencies.
- Build the capability needed to address administrative, educational, and other requirements important to support workforce strategies.
- Monitor and evaluate the agency's progress towards its human capital goals and the contribution that human capital results have made toward achieving programmatic goals.

Consistent with these principles, we have identified that one of the critical success factors for strategic human capital planning is data-driven human capital decision making.³ A fact-based, performance-oriented approach to human capital management is crucial for maximizing the value of human capital as well as managing risk. High-performing organizations use data to determine key performance objectives and goals that enable them to evaluate the success of their human capital approaches. Valid and reliable data are critical to assessing an agency's workforce requirements and heighten an agency's ability to manage risk by allowing managers to spotlight areas for attention before crises develop and identify opportunities for enhancing agency results. Reporting on the results of these evaluations can facilitate congressional oversight of the system, allow for midcourse corrections, and serve as a tool for documenting best practices and sharing lessons learned with employees, stakeholders, other federal agencies, and the public.

Key Capabilities for Implementing Human Capital Approaches

As DHS moves forward, it may find helpful a key set of capabilities that our work has found to be central to the use of human capital authorities.⁴ These practices center on effective planning and targeted investments, employee participation and training, and accountability and cultural change.

³U.S. General Accounting Office, *A Model of Strategic Human Capital Management*, [GAO-02-373SP](#) (Washington, D.C.: Mar. 15, 2002).

⁴U.S. General Accounting Office, *Human Capital: Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces*, [GAO-03-2](#) (Washington, D.C.: Dec. 6, 2002).

- Plan strategically and make targeted investments
 - Obtain agency leadership commitment
 - Determine agency workforce needs using fact-based analysis
 - Develop strategies that employ appropriate flexibilities to meet workforce needs
 - Make appropriate funding available
- Ensure stakeholder input in developing policies and procedures
 - Engage the human capital office
 - Engage agency managers and supervisors
 - Involve employees and unions
 - Use input to establish clear, documented, and transparent policies and procedures
- Educate managers and employees on the availability and use of flexibilities
 - Train human capital staff
 - Educate agency managers and supervisors on existence and use of flexibilities
 - Inform employees of procedures and rights
- Streamline and improve administrative processes
 - Ascertain the source of existing requirements
 - Reevaluate administrative approval processes for greater efficiency
 - Replicate proven successes of others
- Build transparency and accountability into the system
 - Delegate authority to use flexibilities to appropriate levels within the agency
 - Hold managers and supervisors directly accountable
 - Apply policies and procedures consistently
- Change the organizational culture
 - Ensure involvement of senior human capital managers in key decision-making processes
 - Encourage greater acceptance of prudent risk taking and organizational change
 - Recognize differences in individual job performance and competencies

Institutionalizing Performance Management Safeguards

We testified last spring that Congress should consider establishing statutory standards that an agency must have in place before it can implement a more performance-based pay program and developed an initial list of possible safeguards to help ensure that pay for performance systems in the government are fair, effective, and credible.⁵

- Assure that the agency's performance management systems (1) link to the agency's strategic plan, related goals, and desired outcomes and (2) result in meaningful distinctions in individual employee performance. This should include consideration of critical competencies and achievement of concrete results.
- Involve employees, their representatives, and other stakeholders in the design of the system, including having employees directly involved in validating any related competencies, as appropriate.
- Assure that certain predecisional internal safeguards exist to help achieve the consistency, equity, nondiscrimination, and nonpoliticization of the performance management process (e.g., independent reasonableness reviews by Human Capital Offices and/or Offices of Opportunity and Inclusiveness or their equivalent in connection with the establishment and implementation of a performance appraisal system, as well as reviews of performance rating decisions, pay determinations, and promotion actions before they are finalized to ensure that they are merit-based; internal grievance processes to address employee complaints; and pay panels whose membership is predominately made up of career officials who would consider the results of the performance appraisal process and other information in connection with final pay decisions).
- Assure reasonable transparency and appropriate accountability mechanisms in connection with the results of the performance management process. This can include reporting periodically on internal assessments and employee survey results relating to the performance management system and publishing overall results of performance management and individual pay decisions while protecting

⁵U.S. General Accounting Office, *Defense Transformation: Preliminary Observations on DOD's Proposed Civilian Personnel Reforms*, [GAO-03-717T](#) (Washington, D.C.: Apr. 29, 2003).

individual confidentiality. Publishing the results in a manner that protects individual confidentiality can provide employees with the information they need to better understand the performance management system.

While incorporating these safeguards into performance management systems, our work indicates that there is a set of key practices for agencies to create a clear linkage, or “line of sight,” between individual performance and organizational success.⁶ 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.

⁶U.S. General Accounting Office, *Results-Oriented Cultures: Creating a Clear Linkage between Individual Performance and Organizational Success*, [GAO-03-488](#) (Washington, D.C.: Mar. 14, 2003).

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.

Comments from the Department of Homeland Security

U.S. Department of Homeland Security
Washington, DC 20528



**Homeland
Security**

June 7, 2004

Mr. J. Christopher Mihm
Managing Director, Strategic Issues
United States Government Accounting Office

Dear Mr. Mihm:

On behalf of Secretary Ridge, I would like to thank you for the opportunity to review and comment on the report entitled **Human Capital: DHS Faces Challenges in Implementing Its New Personnel System (GAO-04-790)**. Generally, we believe this report is accurate and reflective of our processes and current status; however we believe there is some information that needs to be updated or clarified. The most substantive comments are discussed below, and it is our understanding that the final report will incorporate our technical comments.

The draft report references the use of and/or the results of OPM's Federal Human Capital Survey (FHCS). While we support the FHCS and believe the results can be of tremendous value to agencies, we question the current usefulness to DHS. The FHCS was conducted prior to the establishment of DHS and the opinions expressed by the respondents to the survey were provided prior to the formation of DHS. Yet, this report appears to use the survey results from the legacy organizations as a baseline for DHS. We question how accurately the results portray the perceptions of DHS employees given the significant amount of change that has occurred. Thus, it is our opinion that the results of the FHCS, as used in the context of this report, may be misleading.

We also believe that timeframes contained in the draft report should be updated since we are now in a position to more accurately project major milestones. This includes the ability to better estimate when the interim final regulations might be published which has enabled us to set realistic internal goals for the implementation phase. As a result, some of the milestones outlined on page six, Figure 1, should be adjusted. Specifically, under the last box "Fall 2004 to January 2009," you may want to change the second bullet to reflect, "Implement the job evaluation, pay, and performance management provisions in a phased approach, with the first phase implemented beginning January/February 2005 and the second phase implemented beginning fall of 2005." You should also revise the second full paragraph on page eight to reflect that the focus groups are more likely to occur during the summer than late spring or early summer.

Finally, we also would like to correct the information provided on page eight in the first full paragraph. Specifically, we request that you change the third sentence to reflect that during the design process from April through September 2003, not only did the subgroups gather basic demographic data, but they also gathered policy documents from all the legacy organizations and met with representatives of many of the organizations in order to conduct in-depth discussions

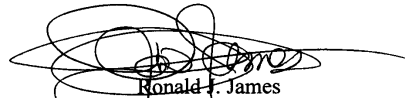
Appendix III
Comments from the Department of Homeland
Security

Mr. J. Christopher Mihm
Page 2

regarding internal HR policies. For example, during the summer of 2003, the subgroups met with representatives of TSA, the Coast Guard, legacy Customs, and FEMA to learn more about their organizations and their current policies and practices.

We have enjoyed working with all the representatives of your organization and appreciate the insight and feedback we have received, both in person, and through these reports. Should you have any questions regarding these comments, please feel free to give me a call.

Sincerely,



Ronald F. James
Chief Human Capital Officer

Enclosure

GAO Contact and Staff Acknowledgments

GAO Contact

J. Christopher Mihm, (202) 512-6806

Acknowledgments

In addition to the person named above, Ed Stephenson, Ellen V. Rubin, Tina Smith, Lou V.B. Smith, Masha Pasthiov-Pastein, Karin Fangman, and Ron La Due Lake made key contributions to this report.

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