



PARTNERSHIP FOR PUBLIC SERVICE

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Prepared for

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Subcommittee on Management, Investigations and Oversight**

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“Addressing the Department of Homeland Security’s  
Morale Crisis”**

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Chairman Carney, Representative Rogers, Members of the Subcommittee, thank you very much for the opportunity to appear before you today. I am Max Stier, President and CEO of the Partnership for Public Service, a nonpartisan, nonprofit organization dedicated to revitalizing the federal civil service by inspiring a new generation to serve and transforming the way the federal government works. We appreciate your invitation to discuss the human capital challenges facing the Department of Homeland Security and the morale of the Department's employees.

The Partnership has two principal areas of focus. First, we work to inspire new talent to join federal service. Second, we work with government leaders to help transform government so that the best and brightest will enter, stay and succeed in meeting the challenges of our nation. That includes all aspects of how the federal government manages people, from attracting them to government, leading them, supporting their development and managing performance; in short, all the essential ingredients for forming and keeping a world-class workforce.

### **An Urgent Need for Action**

Americans need effective government, and the key to good government is good people. The report of the 9/11 Commission said it best: “[T]he quality of the people is more important than the quality of the wiring diagrams.”

Today, our nation faces challenges of unprecedented complexity – from combating terrorism and competing in a global marketplace to dealing with an aging population at home. These new challenges require new skills from our federal workforce. Yet, at this critical time, a large number of experienced federal workers will soon retire, resign or otherwise leave the government, and insufficient interest in and knowledge about federal service leaves us with an inadequate pipeline of talent to replace these losses. Aggressive and immediate action is needed to strengthen the federal civil service, match new skills to current challenges, and build a government that the public deserves and the times demand.

The federal government's human capital crisis defies easy solutions and will require a comprehensive strategy. The federal government will live up to its potential in serving the American people only when our best and brightest answer the call to federal service and enjoy a work environment that empowers them to perform at their best. There are significant human capital challenges facing the Department of Homeland Security, and the federal government as a whole, regarding its ability (or inability) to attract and recruit the talent it needs and to manage the federal workforce so that talented employees stay and succeed in achieving desired results.

It is widely accepted that while the current General Schedule pay and classification system established in 1949 may have served the government well for many years, it is no longer good enough to attract and retain the best and brightest – and we know this from listening to federal employees themselves. In the Office of Personnel Management's

(OPM) 2006 Federal Human Capital Survey of 221,000 civil servants, only 30 percent agreed that “In my work unit, differences in performance are recognized in a meaningful way.” Talented people at all levels – from new college graduates to seasoned professionals – look to work in environments that reward and recognize effort and results. Our *Best Places to Work in the Federal Government* project, which I will discuss later in my testimony, confirms that, compared to workers in the private sector, federal employees are more likely to say that they like the work that they do, that their coworkers cooperate to accomplish a job and that they are given opportunities to improve their skills. Yet, this same comparison reveals that the federal government lags behind the private sector in recognizing employees for a job well done.

Generally speaking, federal employees are not motivated primarily by pay. As everyone here can attest, many public servants can make more money in the private sector – but they have chosen government service. Again referring to our *Best Places to Work* rankings, pay and compensation rank well below leadership, teamwork, how well an employee’s skills are matched to agency mission and work-life balance as the key drivers of job satisfaction for federal workers. And satisfied employees are more engaged and better able to contribute to agency missions. In fact, the preponderance of research on effective organizations in both the private and public sectors indicates that employee engagement is a key driver of mission success. Yet many federal agencies lack the kind of performance management systems that create an environment in which excellence is both recognized and rewarded.

We also note that the current federal pay system is not market sensitive, despite the existing statutory merit system principle that calls for federal pay to be set “with appropriate consideration of both national and local rates paid by employers in the private sector.”

### **Department of Homeland Security Personnel Reform: A Brief Overview**

The Department of Homeland Security (DHS) was granted major exemptions from Title 5 requirements, including in the areas of pay and performance, when it was created under the Homeland Security Act of 2002. DHS designed a new human resources (HR) system, dubbed “MaxHR,” that included a pay-banded approach to pay and was intended to be more sensitive to performance than the existing General Schedule system. DHS, however, also designed new approaches to labor-management relations and employee appeals which were challenged in court by employee unions. The U.S. Court of Appeals for the District of Columbia ruled that the planned labor-relations provisions were inconsistent with the law.

Most recently, DHS has announced their intent to “move beyond MaxHR” and to focus on broader HR issues and initiatives under a “Human Capital Operational Plan” (HCOP). This broader HCOP appears to us to be a move in the right direction by DHS. The plan will focus on improved hiring and retention, creating a “culture of performance” based on performance management plans, and enhanced training and development. While there

are still plans to move toward a more market- and performance-sensitive pay system, DHS is moving at a slower pace than originally planned in an attempt to better establish its underlying performance management system. We also note that the House Committee on Homeland Security has voted to repeal the authorization for DHS to pursue an alternative personnel system and that the final direction of the Department's reform efforts depends on the outcome of Congress's deliberations.

### ***Best Places to Work in the Federal Government***

The old adage that "what gets measured, gets changed" still holds true. And when it comes to the federal workforce, not enough is getting fully measured. Data available on the state of the federal workforce is not systematically organized, evaluated or disseminated in a way that is meaningful to all of the key audiences.

The value of indicator systems as an effective tool for driving reform has been widely documented. The Partnership has taken a step toward creating national indicators through our *Best Places to Work in the Federal Government* rankings, prepared in collaboration with American University's Institute for the Study of Public Policy Implementation. The *Best Places* rankings build upon data from OPM's Federal Human Capital Survey to provide a comprehensive assessment of employee satisfaction across the federal government's agencies and their subcomponents.

Employee satisfaction and commitment are two of the necessary ingredients in developing high-performing organizations and attracting key talent to meet our nation's challenges. The *Best Places to Work* rankings are a key step in recognizing the importance of employee satisfaction and ensuring that it is a top priority of government managers and leaders.

Since the first rankings were released in 2003, they have helped create much-needed institutional incentives to focus on key workforce issues and provided managers and leaders with a roadmap for boosting employee engagement.

The rankings also provide Members of Congress and the general public with unprecedented insight into federal agencies and what the people who work in those agencies say about leadership, mission and effectiveness. Ideally, the *Best Places* rankings can aid Congress in fulfilling its oversight responsibilities by highlighting the federal government's high-performing agencies and raising a red flag when agencies suffer from conditions that lead to low employee engagement and poor performance.

### ***DHS: A Best Place to Work?***

Mr. Chairman, later today the Partnership will release the 2007 Rankings of the *Best Places to Work in the Federal Government*. This year's rankings include 61 federal agencies and 222 agency subcomponents. We rank each agency on an overall

satisfaction index score, as well as in ten individual workplace categories: employee skills/mission match, leadership, work/life balance, teamwork, pay and benefits, training and development, support for diversity, strategic management, performance-based rewards and advancement, and family-friendly culture and benefits. Our index scores are computed based on data that comes from federal employees themselves through their responses to OPM's Federal Human Capital Survey.

The Subcommittee is right to raise questions about employee morale at the Department of Homeland Security. As the Department's performance in the *Best Places* rankings shows, there is reason for concern.

In 2005 and again this year, the Department as a whole ranks second-to-last -- i.e., in 29th place -- among large agencies. The Department is the lowest ranked agency in eight out of ten workplace categories.

Of the eight DHS subcomponents that were ranked in 2005, only the Transportation Security Administration (TSA) and the Bureau of Citizenship and Immigration Services (BCIS) increased their overall scores; the other six (Headquarters, Federal Emergency Management Agency, Coast Guard, Immigration and Customs Enforcement, Customs and Border Protection and the Secret Service) declined.

Our analysis of the *Best Places* data shows that, within DHS, three workplace categories are most closely related to overall satisfaction. They are, in order, leadership, employee skills/mission match, and strategic management.<sup>1</sup> For 2007, the Department as a whole showed improvement in two of these three key drivers -- strategic management (up 3.3 percent) and effective leadership (up 2.3 percent). DHS also improved in the performance-based rewards and advancement dimension, by 5.8 percent. DHS scores were down in the other seven workplace categories.

For the 2007 *Best Places* rankings, DHS is divided into 13 subcomponents. The subcomponent data provides a fascinating look at where things are going well, or not going well, in the Department. Some of the more troubling data points for the DHS subcomponents include the following:

- Six DHS subcomponents (the Defense Nuclear Detection Agency, FEMA, the Bureau of Immigration and Customs Enforcement, Headquarters, TSA and the Office of the Undersecretary for Science and Technology) are among the 15 lowest ranked federal subcomponents.
- TSA is the lowest ranked DHS subcomponent for two of the three government-wide key-drivers: leadership and work/life balance.
- FEMA's score dropped by about 13 percent from 2005, placing it 211th out of 222 federal subcomponent organizations.
- DHS headquarters ranks 215th among all subcomponents. Its score dropped 29 percent from 2005, the largest decline of any federal subcomponent.

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<sup>1</sup> This differs from the government-wide results, where work/life balance -- not strategic management -- is the third most influential driver of employee satisfaction.

The messages coming from DHS are not all disappointing, however. There is some encouraging news in the performance of several DHS subcomponents:

- Three DHS subcomponents -- U.S. Visit, the Coast Guard and the Federal Law Enforcement Training Center (FLETC) -- are ranked among the top 50 subcomponents. Two of the three (U.S. Visit and the FLETC) are new to the rankings in 2007.
- U.S. Visit, the Coast Guard, the Secret Service and the FLETC scored above the government-wide mean in both leadership and how well employee skills are matched to agency mission. U.S. Visit in particular had a very distinguished score in the leadership category; it ranked seventh out of 222 subcomponents.
- Five DHS subcomponents (FLETC, Office of Inspector General, Coast Guard, Secret Service, and BCIS) scored above the government-wide mean in the area of work/life balance.
- TSA, one of the largest DHS subcomponents and the lowest ranked federal subcomponent in 2005, enjoyed a six-percent increase and no longer ranks last. TSA improved in 2007 in two of the three workplace categories linked most closely to DHS employee satisfaction and engagement – leadership (up 5.6 percent) and strategic management (up 6.2 percent). In employee skills/mission match, TSA stayed about even with its 2005 score.

Mr. Chairman, these data points combine to tell a compelling story about the Department of Homeland Security. The Department is fortunate to have a workforce that is committed to the Department and to its mission; yet, varying degrees of weakness in all ten workplace categories keep the Department and its employees from performing at their best.

Working in the Department's favor is the addition of Marta Brito Perez as the Department's new Chief Human Capital Officer. We believe that Ms. Perez understands the challenges facing the Department and is working to address them in a strategic and comprehensive way. Under Ms. Perez's guidance, and with the support of the Department's senior leaders and this Subcommittee, we think there is reason to believe that DHS can improve its overall *Best Places* ranking.

### **The Way Forward**

Making major changes in federal human resources systems, especially in pay and performance management, involves culture change as well as system change. Such change is inevitably slow and iterative. The changes that have been attempted at the Department of Homeland Security have had dubious success, especially in terms of employee acceptance. We note, however, that a number of the federal agencies that have been allowed to operate under alternative personnel systems such as SEC, NASA and GAO have consistently been rated by their employees as among the top ranked "*Best Places to Work.*"

We believe that moving DHS back to the 1949-era General Schedule would likely have greater costs than benefits. None of the alternative personnel systems have been “magic bullets,” but over time most have been improvements over what existed previously and the affected organizations would not welcome a return to the previous state. The challenge, therefore, is to effectively move forward from here with personnel management practices that are designed in partnership with Department employees and their representatives and that will benefit the Department and its employees alike.

## **Recommendations**

The Partnership offers the following recommendations regarding the Department of Homeland Security’s personnel management:

1. Congress should encourage and support Department efforts to hire and retain top talent, create a performance-based culture, create learning and development opportunities for DHS employees and improve leadership.
2. Congress should also support Department efforts to establish a fair, credible and transparent performance management system that makes meaningful distinctions in employee performance and is designed in collaboration with the Department’s employees and employee representatives. A well-established performance management system that is accepted by DHS employees is a critical first step toward more performance-oriented compensation systems. The Department’s stated intent to address weaknesses in their performance management system, and to address the low percentage of positive responses from their employees to the 2006 Federal Human Capital Survey before implementing a performance-based pay prototype, are noteworthy goals.
3. Congress should allow the Department to continue its pursuit over time of more market-sensitive pay systems that also allow more flexibility in recognizing employee performance, classifying jobs and setting initial pay – subject to the caveat in recommendation 4. The flexibilities that have been tested successfully in federal demonstration projects or in federal agencies with special pay flexibilities provided by Congress should serve as a guide in this regard.
4. Congress should require that any DHS alternative pay system must meet certain requirements, and be certified by OPM, GAO, or another entity specified by Congress, before it is implemented. The requirements for certification should include (a) a fair, credible and transparent performance appraisal system, (b) a means of ensuring employee involvement, acceptance and ongoing feedback, and (c) a mechanism for ensuring the system is adequately resourced.
5. A key criterion for the success of any human capital management system is the presence of highly competent managers, supervisors, and HR professionals. Congress should ensure that DHS is making the necessary investment to select, train,

and effectively manage the individuals in these key occupations.

6. Congress should ensure that a DHS personnel system operate under government-wide ground rules. These ground rules currently include and should continue to include:
  - Adherence to the Merit System Principles in 5 U.S.C. § 2301(b) and the Prohibited Personnel Practices in 5 U.S.C. § 2302(b);
  - Collaboration with and involvement of employees and managers;
  - Collective bargaining with employee representatives via negotiated agreements;
  - Due process rights for employees; and,
  - Adherence to veterans' preference.
7. Congress should closely monitor the Department's investments in training and development. Too often, these accounts are among the first to be cut, when the fact is we need to be investing more in training and development, particularly when we are demanding more of managers and implementing new personnel flexibilities. A specific amount of funding sufficient to this task should be allocated and fenced in.
8. To assist Congress in the exercise of its oversight responsibility and to respond to any concerns that current or future HR reforms might actually detract from the ability of DHS to accomplish its missions, the Partnership recommends the development and use of a set of metrics for the specific purpose of evaluating personnel management and reforms over time. Such metrics will only be of value if the Congress, the Department and other key stakeholders agree on a common set of measures to inform future decision-making. The following principles should apply in this regard:
  - a. The key to effective oversight will be looking at the *right* measures, not the *most* measures.
  - b. Metrics should include qualitative as well as quantitative measures.
  - c. Metrics should not impose an undue collection and analysis burden.
  - d. Metrics should be used to inform decision-making and not simply to monitor compliance/non-compliance.

The Partnership has recently completed a thorough review of human capital metrics in federal, state and local governments, as well as the leading practices of top companies in the Partnership's *Private Sector Council (PSC)*, that serve as a useful guide to the Subcommittee in its oversight capacity.

Based on this research and mindful of the principles mentioned above, we recommend that the Subcommittee work with DHS to collect and analyze **metrics in seven areas**: *recruitment, retention, skills gaps, performance distinctions, performance culture, leadership and implementation*. The Subcommittee could gain additional insight from the data by looking at these metrics by specific demographic group – e.g., minority employees or a particular age group – as compared to the workforce as a whole.

### ***Recruiting***

To assess whether they are winning the war for talent, leading organizations are collecting information about **new hire rates** – e.g., the ratio of new employees hired to the number of planned hires for critical skills – and **new hire quality** – e.g., monitoring Federal Human Capital Survey results about the skills of new hires.

### ***Retention***

To measure whether DHS is retaining high-performing employees with critical skills, we recommend that the Subcommittee look at the **attrition rates of high performers** compared to overall attrition and the **attrition rates of critical skill employees** compared to overall attrition.

### ***Skills Gaps***

DHS should be working to close the gap between the **actual numbers of employees with a critical skill compared to the number needed**. Ideally, the Subcommittee will monitor the results over time to assess whether the gap is decreasing.

### ***Performance & Rewards***

A modern compensation system should make meaningful distinctions between employees based on their performance. The Subcommittee should monitor **employee evaluations** – e.g., the numbers of employees reaching the various levels of performance – and **employee bonuses and rewards** – e.g., the number of employees receiving various levels of pay and bonuses.

### ***Performance Culture***

Congress enacted a provision in 2003 requiring an annual survey of employees across the federal government. The survey should prove to be an invaluable window into employees' views of their agencies' management practices.

The survey questions specified in recent regulations issued by OPM include several questions about supervision and pay that constitute a **Performance Culture Index** with items such as:

- Promotions in my work unit are based on merit.
- In my work unit, steps are taken to deal with a poor performer who cannot or will not improve.
- In my work unit, differences in performance are recognized in a meaningful way.

The Subcommittee can compare the results of components participating in alternative personnel systems with the results of components operating under the General Schedule system. The Subcommittee and the Department will want to monitor the results over time to track whether the “performance culture” is increasing.

### ***Leadership***

In any organization, it is vital that supervisors and senior leaders treat employees fairly, resolve disputes in a reasonable manner, and have the respect of their employees. Members of the Subcommittee can evaluate leadership effectiveness by

using another set of questions from the Federal Human Capital Survey. The Partnership has created an **Index for Effective Leadership**, which we use in our *Best Places to Work* rankings. This index includes items such as:

- I have a high level of respect for my organization's senior leaders.
- Complaints, disputes or grievances are resolved fairly in my work unit.
- In my organization, leaders generate high levels of motivation and commitment in the workforce.

The Subcommittee can compare the Department's scores on these questions to scores across government and the private sector.

#### ***Implementation – Pulse Surveys***

Finally, it is important to examine real-time data on the success of alternative personnel systems and their implementation. **Pulse surveys** are short surveys going to a small, representative sample of employees used to provide leaders with real-time information on critical issues. DHS could administer pulse surveys semi-annually to examine employee opinions on system training/briefings, understanding of the new system, satisfaction with the new system, et cetera. This data will allow DHS to improve the rollout of its personnel system based on employee feedback.

#### **Conclusion**

Mr. Chairman, Representative Rogers, Members of the Subcommittee, we thank you again for the opportunity to share our views on the personnel challenges facing the Department of Homeland Security and our recommendations for the best way forward. We look forward to being of assistance to this Subcommittee and to the Congress as you consider the future of the Department and the men and women who work to ensure the safety of the American people.

## Appendix

### An Overview of Civil Service Reform Efforts

For much of its history, the federal civil service and the underlying human resources (HR) laws, policies, and practices intended to guide federal workforce management were remarkably uniform across agencies. However, as the demands upon government grew over the past several decades in response to a growing population and a more complex and technologically advanced world, it became clear that some civil service reforms were needed.

Perhaps the largest civil service reform effort in recent memory was the Civil Service Reform Act of 1978. The 1978 Act made some significant changes to the civil service, such as the creation of the U.S. Office of Personnel Management and the Senior Executive Service. It provided, for the first time, statutory recognition of labor-management relations. When the law was passed, Congress recognized that the specific government-wide reforms being authorized were unlikely to be sufficient, and it established a research and demonstration project authority (title 5 U.S.C. § 4703) to help guide future reform efforts. Over time, several of the demonstration projects undertaken were allowed to become permanent alternative personnel systems.

Congress has also recognized for quite some time that “one size doesn’t necessarily fit all” when it comes to HR systems. For example, the U.S. Post Office became the U.S. Postal Service in 1970 with significant changes in its HR policies and systems that had previously been guided by Title 5. Earlier, in creating the Tennessee Valley Authority, Congress gave it wide discretion in the development of its HR systems. Similarly, the Veterans Administration (now the Department of Veterans Affairs) was given authority to manage its medical personnel under a different legal framework, Title 38 of the U.S. Code. The National Nuclear Security Administration in the Department of Energy is the latest federal organization to announce plans to become a demonstration project.

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) gave special pay-setting authority to agencies such as the National Credit Union Administration (NCUA) and the Federal Deposit Insurance Corporation (FDIC). The Securities and Exchange Commission (SEC) was recently given comparable authorities. The Internal Revenue Service (IRS), Federal Aviation Administration (FAA), NASA, the Transportation Security Administration (TSA), and Congress’s own Government Accountability Office (GAO) have all been granted special HR authorities by Congress. The Departments of Defense and Homeland Security, which together employ over 42 percent of all civilian employees in the executive branch, are only the most recent federal departments granted relief from parts of Title 5 of the U.S. Code that were deemed too inflexible or counter-productive.