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SENIOR EXECUTIVES: LEADING THE WAY IN FEDERAL WORKFORCE REFORMS

HEARING

BEFORE THE

OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL WORKFORCE AND THE DISTRICT OF COLUMBIA SUBCOMMITTEE

OF THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

SEPTEMBER 26, 2006

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CONTENTS

	Page
Opening statements:	
Senator Akaka	1
Senator Voinovich	2

WITNESSES

TUESDAY, SEPTEMBER 26, 2006

Hon. Linda M. Springer, Director, Office of Personnel Management	4
Brenda S. Farrell, Acting Director, Strategic Issues, Government Accountability Office	16
Carol A. Bonosaro, President, Senior Executives Association	18

ALPHABETICAL LIST OF WITNESSES

Bonosaro, Carol A.:	
Testimony	18
Prepared statement	48
Farrell, Brenda S.:	
Testimony	16
Prepared statement	34
Springer, Hon. Linda M.:	
Testimony	4
Prepared statement	29

APPENDIX

Questions and answers submitted for the Record from:	
Ms. Springer	52
Ms. Farrell	63
Ms. Bonosaro	69
Letter dated November 17, 2006, from Carol A. Bonosaro	72

SENIOR EXECUTIVES: LEADING THE WAY IN FEDERAL WORKFORCE REFORMS

TUESDAY, SEPTEMBER 26, 2006

U.S. SENATE,
OVERSIGHT OF GOVERNMENT MANAGEMENT,
THE FEDERAL WORKFORCE, AND THE
DISTRICT OF COLUMBIA SUBCOMMITTEE,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 11:01 a.m., in room SD–342, Dirksen Senate Office Building, Hon. George V. Voinovich, Chairman of the Subcommittee, presiding.

Present: Senators Voinovich and Akaka.

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA [presiding]. On behalf of Senator Voinovich, who will be here shortly, I call this hearing of the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia to order. I would like to welcome our witnesses who are here to discuss the Senior Executive Service (SES) pay-for-performance system.

Today's hearing offers another opportunity to review the challenges associated with moving to a pay-for-performance system and to show agencies, such as the Departments of Defense and Homeland Security, what works and what does not work.

This Administration is pushing to replace the current personnel system with pay-for-performance. Such an obvious pocketbook issue makes it imperative that, should any changes occur, they start at the senior levels first. However, senior executives and managers must have trust in a new system and have confidence that the processes, by which their performance is appraised and their compensation is determined, are fair.

Last week, the Senior Executives Association (SEA) released the results of the survey of members and non-members on the SES pay-for-performance system, which raise serious concerns. The results are disturbing. Despite the Administration's claims that the SES system is successful, the survey tells a different story.

Respondents say that their new pay-for-performance system lacks transparency, fails to link pay with performance ratings, and serves no purpose other than lowering employee morale. I am especially troubled that over half—that is, 53 percent—believe that quotas were used to determine bonuses last year, despite explicit

Office of Personnel and Management (OPM) regulations prohibiting such a practice.

Director Springer and I have met regarding the issue of quotas, and I believe her when she says quotas are unacceptable. However, if quotas are not being used, then there is a serious perception problem that must be addressed. I look forward to hearing what steps OPM is taking to resolve this problem.

So let's be clear. The competitive selection process for members of the SES should ensure that the best people are leading the Federal Government. So when it comes to evaluating the performance of these highly qualified individuals, high performance ratings should be expected. Agencies that lower ratings artificially to fit bell-shaped curves or institute arbitrary quotas are not rewarding performance; rather, they are showing how pay-for-performance can be unfair and unobjective.

Director Springer, I want to thank you for your commitment to work with agencies to address the problems raised by the SEA survey. To me, the survey clearly demonstrates the need for more rigorous certification criteria, as well as more training and oversight by OPM. Right now, only one agency has full certification and 25 have provisional certification. I just wonder if we are giving agencies to much flexibility without meeting what Comptroller General Walker calls the "show me" test.

If senior executives do not have faith in the fairness and transparency of their pay system, I do not see how rank-and-file employees would want to work under such a system.

I am so glad to see our Chairman back here at this moment, and I look forward to hearing from our distinguished witnesses. Mr. Chairman, thank you.

Senator VOINOVICH [presiding]. Thank you, Senator Akaka. I really appreciate you starting this hearing. Ms. Springer, I apologize to you for being late this morning. It is the first time that this has happened, and it is the last time.

OPENING STATEMENT OF SENATOR VOINOVICH

Senator VOINOVICH. Today's hearing, "Senior Executives: Leading the Way in Federal Workforce Reforms," is very important. As Congress continues to consider ways to better position the government to be an employer of choice in the 21st Century, reforms of the government's personnel systems, both performance management and pay systems, have been a key focus.

We know that to effectively implement change throughout an agency, the senior management must be committed to change and lead by example. Government-wide reform has begun at the top, and it must start at the top. When it comes to pay-for-performance, the elite cadre of government leaders and managers are leading the way.

The Senior Executive Service (SES) was established by the Civil Service Reform Act of 1978. It provides a framework for developing and managing executives in the Federal Government. By definition, career members of the SES are talented individuals. They must be able to lead change; they must be able to lead people; they must achieve results; they must possess business expertise; they must be able to build coalitions; and they must maintain open com-

munication. They are really important people, and are leaders in the government.

In response to the continued problem of pay compression, Congress authorized departments and agencies to develop and implement pay-for-performance for the SES. If OPM, with the Office of Management and Budget (OMB) concurrence, certifies an agency's performance management system, the SES would be able to earn pay at a higher rate. I was disturbed by some of the information that Senator Akaka mentioned in his statement.

I was, and remain, a strong advocate of reform efforts underway for the government's senior career civil servants. I believe these reforms, if done well, will help the dedicated members of SES better serve our Nation. The goal of all Federal personnel reforms is the same: To build a better workforce. Why is this important? The only way government, the various departments and agencies, will succeed in accomplishing its missions is to have motivated employees working towards the strategic goals of their respective agencies. An effective performance management system establishes for employees a clear understanding of what is expected and demonstrates how each individual contributed to advancing the agency's mission and serving the American people.

Let me provide a concrete example of the service these individuals provide to the American people. Each year, the President recognizes a small group of career senior executives who have demonstrated exceptional long-term accomplishments. Michael McMullan, the Deputy Director of Beneficiary Services at the Centers for Medicare and Medicaid Services, is a recipient of the 2005 Presidential Rank Award for distinguished senior professional service. Ms. McMullan developed CMS' consumer information strategy, which includes plain-language materials, a full-service toll-free telephone line, 1–800–MEDICARE, and an award-winning Internet site. I can tell you it was fantastic, and I saw first hand the available benefits all over Ohio. It was amazing to me what they were able to do. She is only one example of the excellence to be found in our SES corps. We must do all we can to recognize, reward, motivate, and retain these talented individuals.

As you know, we are 3 years into the implementation of reforms. I look forward to hearing the testimony of our witnesses to assess implementation, understand the current status of reforms, and determine whether additional changes are needed. We must do all we can to ensure success, and when I say "we," I do mean "we"—Congress, the Executive Branch, and employee representative organizations.

You testified here before when we were talking about the NSPS and its progress. The impression that I got from the different comments I am receiving from various agencies is that the preliminary work done for Spiral 1.1 was not done with the Senior Executive Service. I am anxious to discuss this further. As I have mentioned over and over again, if implementation is not done correctly in the beginning, then its chances of being successful and becoming a part of the system is not going to happen.

So, again, I apologize for being late, and I am anxious to hear your testimony.

TESTIMONY OF HON. LINDA M. SPRINGER,[1] DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

Ms. SPRINGER. Thank you, Mr. Chairman and Senator Akaka, and I appreciate both of you being able to come here, especially arriving from Hawaii, Senator Akaka. So it is a particular pleasure to be here today to discuss the progress to date on the implementation of this performance-based pay system for members of the Senior Executive Service. I do appreciate the support and the interest of this Subcommittee and other Members for effective performance management, and that is where it begins. There is no basis for pay-for-performance unless the performance management is present for the start of it.

With regard to the SES, OPM has two roles to play in successful implementation. The first role is to provide agencies with the assistance they need to design and implement these systems successfully. The second role is to oversee their effectiveness and, chiefly, that is done through the certification process that is outlined in the statute.

To guide agencies through the process, OPM published detailed regulations with criteria in 2004 for agencies to meet, as well as additional guidance since then as it has been needed. We review the agency submissions for certification very carefully and assign it to either one of two categories: either provisional or 1-year certification, or a full certification which lasts for 2 years and then would have to be re-upped, depending on the extent to which the agency has satisfied us that they have met the criteria. There are written standards and criteria that need to be met for certification. Additional concurrence is given, as you mentioned, Mr. Chairman, by OMB.

We are completing the third year of the certification process, and each year we find that the agencies' data is more complete, has more rigor, and is increasingly close to the guidance. In the past, the executive performance plans that we saw were not focused particularly on achievement, but more so on activity, less on results, more on just actions and activities, but less so on the actual result of those activities. Today, the performance plans are better documented. They have more measurable goals—and I want to underscore measurable as opposed to quantifiable. Quantifying is one type of measurement, but there are other types of measurement. So we look for the broader definition of measurement and look for that in the goals.

Good plans have written goals. They have requirements that goals for each individual be in writing, that they are in writing at the beginning of a performance cycle, that they are agreed upon up front, and that those goals have ways to determine the progress that is being made and, in fact, that meets our definition of measurable. Quantifiable, again, is just one type of that.

Agencies are using multi-level rating systems and making meaningful distinctions in applying them. Now, I want to say right here on the record very straightforwardly, quotas are prohibited. There is nothing in our guidance that allows for quotas. If we see them, we take actions. When they are brought to our attention, as they

[1] The prepared statement of Ms. Springer appears in the Appendix on page 00.

have been recently in this study—and Senator Akaka sent a letter to me earlier this year, I believe, on it, or late last year it was, and we dealt with that situation. So if we find quotas, we will deal with it.

Sometimes there is an appearance of a quota or there is a perception of a quota. The terminology may be used. It may be that a manager needs coaching to help them to understand that they need to deal with a performance issue and not use the Cop-out saying, "well, I have a quota to meet and you are not going to get it this year." That is not really a quota system, but it is someone using that as a convenient excuse to manage through a situation. And in some cases, there may legitimately be misunderstandings of people thinking that we are looking for quotas. We are not. So we will work very diligently, and we have been whenever we see that, but I want to say very clearly today that quotas are not allowed. They are prohibited. They are bad.

But we are seeing increasing linkage between performance and making decisions about the distinction between the performance and the results and then what that means for ratings of executives. And that is important. That is what we are after—good distinctions, good goals, and measuring that, and really rewarding people to the highest degree who are the highest-level performers. It remains a work in progress, but we believe that certification is having the desired effect—not quotas, but the effect of driving improvement in agency performance management. That is what we are after—better performance, better management of performance—and that is what we are starting to see.

We are currently preparing guidance for the 2007 certification cycle and will highlight areas of improvement. Whether it is in training or whether it is in communication, we will be able to look at the results of the study from the SEA and very seriously see if there are things there that need to be incorporated in our 2007 guidance.

One thing that I want to point out is that there is a gap in the underlying statute. Right now agency certification expires at the end of a calendar year. Most agencies are still finishing up their cycle of performance reviews, and they are not able to send in their new certification requirements until sometime after January. So we have a period of time where, if the certification has lapsed or expired, members of the SES who have gotten up to that executive level II under a previous certification are not able to get the increases, nor are people able to be hired to take advantage of that higher executive level II in that gap period.

We sent draft legislation up in June. We would like to work with you on trying to get that implemented, and that would help us to overcome this gap issue. We obviously want to take maximum advantage, or allow agencies to take maximum advantage, of that executive level II opportunity in their hiring.

Another limitation that is in the current statute is the inability of the Senior-Level group, SL, and the Senior Scientific and Technical personnel, the ST group, to have access to executive level II pay. These are the very advanced, very seasoned, very experienced technicians and technical personnel. They have not chosen a management track, so they do not fall under the SES provisions that

allow them to have the opportunity for higher pay at the executive level II. We think that these personnel deserve that opportunity, and we think it should be fixed. So we would like to work with you on that as well.

OPM is committed to systems of compensation that reward Federal employees for performance, in contrast to systems that are driven by longevity. We steadfastly believe the SES system is a good system. But we recognize—and in light of the current survey that came out, we believe that there are some inconsistencies in how it is being applied and implemented. We believe it is an execution issue rather than the construct of the system itself.

We are reviewing the study that was released last week by the Senior Executives Association. I met with Ms. Bonosaro on it the very day that it came out, and we believe it will help us to understand some areas that previously we were not aware that there may be either misconceptions or misapplications. And we are going to work through the Chief Human Capital Officers Council, among other areas, to work directly with agencies to shore that up.

I do have one concern that I want to state publicly, and that is that I think we have to be careful that we haven't devalued the rating of a fully successful performer. Senior executives, like anyone else, are hired with the expectation that they will do a job and be high-level performers. That is the expectation. No one is hired with the idea that they will be poor performers or mediocre performers. When you hire someone to do a job, you expect they will do it and do it well. And that, in my mind, constitutes that they have done their job successfully, fully successful.

Past practice has corrupted the definition of "fully successful" to mean that if you do your job fully and do it well, that equates to an outstanding rating. We believe that the higher-level ratings, "exceeds" and "outstanding," should be reserved for performance that is just that, and that the "fully acceptable" or "fully successful" should be viewed very positively and reflects the fact that the commitment has been fulfilled between the employer at the agency and the employee. And so that is another thing that I personally believe needs to be reset as we go into a more fully tiered evaluation system.

In closing, I remain fully convinced that performance-based pay is critical to the success of an organization, and the government is no exception. It is particularly critical for us, as you say, Mr. Chairman, to be an employer of choice in the years ahead in an increasingly tight labor market, and I think performance-based pay is an important component, managed well, executed properly. I am equally confident that the men and women of the Senior Executive Association are capable of managing and thriving in this system when it is done properly.

I appreciate the opportunity to testify here today, and I will look forward to any questions that you may have.

Senator VOINOVICH. Thank you very much.

As you know, and I have made mention to Senator Akaka's statement, the results of the survey the Senior Executives Association released early last week. It does not provide a positive assessment of implementation thus far. The SEA is going to testify in the sec-

ond panel and will discuss their survey in more detail in their testimony.

I have repeatedly stressed to both the Department of Defense and the Department of Homeland Security that a fundamental goal of their new personnel system is employee acceptance.

Since it is going to be brought up, what is OPM's response to their findings?

Ms. SPRINGER. Well, the initial response is that we want to study it. We are certainly not taking a defensive posture. We want to take to heart, very seriously, the issues that have been raised there. I would say that these issues are raised to a degree and a magnitude that we have not previously heard. We have heard instances here and there, as Senator Akaka had raised to us, about a quota perception, and we dealt with that particular one. We have not heard it to the degree that it appears to be coming out in this survey.

So the first step was to meet with the head of the SEA, which I did. The second was to ask some additional questions. She has already provided some additional information. I want to get down beneath the surface on some of that information. The CHCO Council will be meeting in November, and we are going to put that on our agenda and review it. And as we prepare the 2007 guidance, OPM's 2007 guidance, we are going to reinforce the execution issues that deal with the concerns that have been expressed.

Senator VOINOVICH. Are you going to undertake your own analysis of this so that you can review those and have them reflected in what you are going to be doing next year?

Ms. SPRINGER. Yes.

Senator VOINOVICH. Does OPM's review of agency certification submissions include a review of the communications strategy and training program?

Ms. SPRINGER. It does not explicitly, Mr. Chairman. There are many facets and many components, and we have been talking about, in light of the study and some of the other things, perhaps we need to highlight that more than we do today.

You raised earlier Spiral 1.1 of NSPS, and we had the hearing last week on how the Department of Defense is doing with their system. And one of the reasons why they have achieved success so far is because of the training culture that exists at DOD and the way that they have applied it to their Spiral 1.1.

I think that you would find across the landscape of the agencies, with the SES, varying degrees of that type of training and communication. That, I think, maybe should be a focus, a stronger focus in our process.

Senator VOINOVICH. We have heard good remarks on Spiral 1.1 of NSPS. It would seem to me that you might look at why that has been successful to maybe incorporate some of that into the SES system. It is obvious that is not as good as it should be.

Three years into implementation, only the Department of Labor has full certification of its performance management system. Congratulations, to Secretary Elaine Chao.

Why do you believe more departments and agencies have not been able to obtain or maintain full certification? Has anybody compared what Secretary Chao has done in her Department to get

an idea of how her work might be helpful to other departments? Have any departments without certification discussed with the people from the Department of Labor what they did? Are there best practices that others could incorporate that would help them get certification?

Ms. SPRINGER. There are a few questions there, and I want to answer all of them.

The first is that I do not see the fact that only one agency has achieved full certification as necessarily a bad thing. Certification is not a rubber stamp from OMB or OPM. Certification has some very high standards, and so getting provisional certification is a first step, but I think that it recognizes that we are not going to give agencies full certification unless they do have things in place that warrant it. And we have not seen that to the degree we would like.

We have seen it at Labor. We have studied what Labor has done, and one of the things I would like to do with the Chief Human Capital Officers Council is to have best practices with respect to the SES performance system, pay system, be an initiative of theirs so that would be the opportunity. There is a representative from every agency there to share best practices. So that will be one of the things that we do to make that happen.

Senator VOINOVICH. But do you know whether there has been any meetings betwen Labor and other departments? If Labor is doing a good job, what is it that they are doing that could be replicated in other agencies?

Ms. SPRINGER. OPM has done that. I do not know if other agencies on their own initiative have visited to find out what Labor has done. But OPM has done that, and we have set out very clear standards and practices to the other agencies, here is what makes for a successful system.

As I said earlier, I think we can go further in what makes for successful execution of the system, not just the construct of the system. I think we have done a pretty good job on the construct. It is just how people were behaving in that system where we need to focus now.

Senator VOINOVICH. Does your new person who is quarterbacking that group of human capital folks have this on his agenda?

Ms. SPRINGER. Yes.

Senator VOINOVICH. I would like to know, what is the agenda of the Human Capital Officers Council? One of the things that I learned, particularly as governor of Ohio, is that if you get folks together, it is amazing how much they help each other instead of just dealing with problems in a vacuum when people get together and talk, this type of synergism develops, and they start to get excited. I think it would help a great deal if you sat down with Ms. Bonosaro and her group and asked: What are your observation or what is going right? I think that is the best way to identify changes that are needed.

Ms. SPRINGER. Yes. I could not agree with you more, and that is one of the ways we will get at this.

Important enhancements were made this year to improve the structure of the Chief Human Capital Officers Council (CHCOC), which have been implemented for the Council Chair by the Execu-

tive Director. First, in the spring of 2006, the Council was expanded to include Deputy Chief Human Capital Officers. The addition of the Deputy CHCOs serves three important purposes, including (1) providing the Council's link to the Federal human resource directors; (2) developing and sharing best practices; and (3) ensuring continuity when there are changes in leadership at the Council.

Second, the subcommittees were realigned and refocused to reflect key human capital challenges facing Federal agencies. The new alignment created six subcommittees, including: Emergency Preparedness; Hiring and Succession Planning; Human Resources Line of Business; Human Resources Workforce; Learning and Development; and Performance Management. This new structure allows the Chief Human Capital Officers, and their deputies, to serve as leaders in these critical issue areas.

Third, OPM linked the goals and objectives from the agency's "2006–2010 Strategic and Operational Plan" to each subcommittee. The linkage will enable OPM to forge strategic partnerships with the appropriate subcommittee representatives and their staff members. In addition, this collaborative approach, provide the subcommittees with the opportunity to affect human capital policy and programmatic changes during the developmental and implementation stages and will yield positive achievable and recognizable outcomes.

Fourth, to allow for greater ownership, transparency and accountability, each subcommittee drafted mission statements and goals for FY 2007. The creation of the subcommittee plans provides the foundation for the tasks and priorities that the Council will address in the next 12 months. As indicated in each of the subcommittee plans, the Chief Human Capital Officers, the deputies, and their staffs will work closely with OPM to achieve their objectives. Developing and fostering this partnership will provide the subcommittees with the opportunity to assess the current impediments to progress, compile and share best practices, and make recommendations on strategic human capital management challenges to OPM, the Council and its stakeholders.

Fifth, the Council expanded the attendance of agency representation for Training Academy sessions. For example, in the past, the Council's Training Academy sessions were open to CHCOs only. However, beginning in August 2006, each Council member can send a total of three employees from their agencies to attend these sessions. Due to this change, over 55 agency representatives attended both the August session when the Departments of Justice and Labor showcased their efforts to conduct competency assessments of mission critical occupations and the October session where OPM, OMB, the Department of the Treasury, and the National Academy of Public Administration highlighted the importance of linking agency human resource offices into the competitive sourcing process.

Sixth, during the full-Council meetings, CHCOs have the opportunity to share best practices from their agency. Examples of best practice presentations included establishing effective CHCO and Deputy CHCO working relations, which was conducted by the Department of Energy in July and utilizing USAJOBS to improve agency recruitment efforts by NASA in September. Sharing best

practices by CHCOs facilitates greater dialogue and discussion during the full-Council meetings. In addition, the agendas include dedicated time for the subcommittee chairs to update the Council on their progress.

Over the past several months, a number of important human capital issues have been discussed at the full-Council meetings, including an in-depth conversation on the use of human resource flexibilities, recruiting top talent for management positions through the Presidential Management Fellows Program, FY 2006 Senior Executive Service performance data, and an update on the final regulations for hiring individuals with disabilities. In addition, several best practices were presented during the CHCO Council Training Academy Sessions including one led by the Departments of Labor and Justice on conducting competency assessments for mission critical occupations. The subcommittees have also had best practice demonstrations and discussions as well. For example, the Emergency Preparedness Subcommittee received a briefing by the Department of the Navy on their on-line system for tracking employees during an emergency. Based on this briefing, several CHCO agencies received follow-up sessions from the Navy.

Moving forward, the executive director will continue to work with the Council to capitalize on this open and collaborative environment and find innovative ways to discuss cutting edge human capital issues affecting the Federal Government and showcase best practices that foster learning for the Chief Human Capital Officers community. For example, in our November 2006 full-Council meeting, we will receive a briefing from Christine Griffin, Commissioner of the Equal Employment Opportunity Commission, on the hiring of individuals with targeted disabilities and discuss the 2007 certification of performance appraisal systems for senior executives, among other items. Future meeting topics will be discussed by the Council and finalized by the Executive Committee in the coming months.

Senator VOINOVICH. Do you have the resources that you need to do this?

Ms. SPRINGER. Yes.

Senator VOINOVICH. Senator Akaka.

Senator AKAKA. Thank you very much, Mr. Chairman.

Director Springer, I mentioned in my opening statement that, according to the SEA survey, 53 percent of respondents claim their agencies use quotas. When you discover an agency using quotas, what action does OPM take or do to address the issue?

Ms. SPRINGER. Well, first of all, OPM gets in direct contact with that agency or that component of the agency, and presents to them what we have learned and gives them an opportunity to respond to it, in fairness to them. But then we will sit down with them, we will review the program as they are executing it, and see if there is, in fact, the use of quotas or if, in fact, there is a perception because of something that they are doing that would lead someone to think that there is a quota. And whatever needs to be done there, we will fix.

Then we have a regular process of going back. It is not exactly an audit, but of revisiting in areas that has been a challenge.

Senator AKAKA. From your statement, it seems as though there is not a clear understanding as to what a quota is.

In your opinion, what constitutes a quota?

Ms. SPRINGER. If a system has a goal to have X percent of ratings at this level and Y percent at this level and another percent at each of those levels, regardless of performance, then that is a quota system because the main driver is reaching a certain distribution. Our goal is not the distribution. Our goal is developing performance and rewarding performance.

Now, it is conceivable, for example, in an agency that has a small component of SES executives that they could all have an outstanding year and all be at the highest level, and if that is the way it comes out, if the goals that were established at the beginning, well-articulated goals, measurable goals are all achieved at that highest level, then that is fine. There is nothing in our system that prohibits that.

What I think people have misconstrued is the fact that in a group of 6,000 SES executives, 6,000-plus individuals, it is hard to imagine that somewhere around 90 percent would all be at not just fully successfully doing their job or even at exceeds, but at the outstanding level. And that was the result that we were getting before this system of really having clear goals and making distinctions was in place. We had one agency that had 1,000 SES, and in the year 2002 97 percent were all rated outstanding. Now, intuitively that just does not make sense.

And so I think that people have interpreted those types of comments to mean that we are shooting for a lower percentage. But what we are shooting for is not a percentage or a curve or a certain distribution, but it is a fair and accurate assessment based on performance.

Senator AKAKA. Have you met with the SEA about quotas?

Ms. SPRINGER. Well, we have started that process. The first meeting I had with Ms. Bonosaro was the day that the survey came out. I heard it was coming, and I asked her if she would be good enough to come over and visit with me, and she did. And I am sure we will have many more meetings.

Senator AKAKA. The SEA survey also found that in smaller agencies performance pay is restricted because of a shortage of funds. How can small agencies implement a successful and fair pay-for-performance system without additional funds?

Ms. SPRINGER. The fund pool, the pay pool, is obviously an issue for small agencies. It is an issue for large agencies, too, candidly, because no one is without budget pressures. But the fact of the matter is that each agency has to take some responsibility for this. It is not just an OPM issue. As I think one of you said earlier, we all have a part in making this successful. So making sure the agencies have the funding they need to reward their employees is not just an OPM issue. It is an issue for that agency that feels they do not have it. It is an issue for everyone who participates in the budget process.

But where we have a particular role at OPM is make sure that the system is in place, it is meeting standards, and that right from the front end, the executive has clear, written goals, good management has what they need to be successful, and then at the end of

the day, certainly we all need to work together to make sure the funding is there so that they can be rewarded appropriately.

Senator AKAKA. I understand that OPM, with OMB's concurrence, may suspend certification if an agency's pay-for-performance system is not in compliance with the certification criteria. You did mention in your remarks that certification is having a desired effect. Has any agency's certification ever been suspended?

Ms. SPRINGER. To my knowledge, I do not think anyone ever—no, the answer is no.

Senator AKAKA. And can you provide additional details as to what an agency would have to do in order to have certification suspended?

Ms. SPRINGER. It is really speculative, to be honest with you, Senator. I have not ever come across it, nor would I expect that to be the case. Let me get back to you on that, if I may, because it is just very far removed from what we have experienced or what we expect to experience. So I will get back to you with that.

Senator AKAKA. Director Springer, the merit system principles call for equal pay for work of equal value. However, under the SES pay-for-performance system, senior executives at different agencies with the same performance rating do not necessarily receive the same performance award.

In your opinion, how does the SES pay-for-performance system comply with the principle of equal pay for equal work?

Ms. SPRINGER. I think that it does in the sense that the starting point is a job definition with certain responsibilities and requirements and an individual who takes on that role—and so they start at the same point. But then from that point, each individual distinguishes themselves in a given year by the level of their performance and the particular requirements of that job in that agency. So you may have an accountant in agency A and an accountant in agency B, or an accounting executive, if you will, and they may in a given year, even though on paper typically it looks like the same position, have certain challenges in that year. And this system would allow us to recognize the stellar performance, for example, of an individual in a particularly challenging year that went above and beyond the basic requirements of their job.

So I do not think they are at odds. I think it just gives us the opportunity to acknowledge years that exceed or are outstanding for a given individual and then reward those.

Senator AKAKA. I understand that OPM conducts audits of agencies to ensure adherence to the merit system principles. Has OPM completed any audits of agencies' SES pay-for-performance systems?

Ms. SPRINGER. Yes, I was just checking. It really is each year, in effect, by the recertification process, we are examining what they have done in the previous year. So, in effect, that is like an audit de facto, if you will, because each year, with the exception of the agency that has the 2-year full certification, we have to go back and review what they have done, have they put it into practice and met the expectations.

Senator AKAKA. Thank you very much, Mr. Chairman.

Senator VOINOVICH. Senator Akaka, I would like to have another 3 minutes for each one of us and then wrap it up here because there are other witnesses.

Agencies are allocated funds every year. They also are required to fund a cost of living increase for employees, pay step increases, and so forth. Now, when we get to the Senior Executive Service, is there a pool of money that is available for them? And does that reflect the cost of living? How does that work?

Ms. SPRINGER. There are really two major components to the compensation award and adjustments that are made for a given individual in the SES, as I understand it. You have got a percentage increase on their salary, and that is intended under our system to recognize performance.

Senator VOINOVICH. Well, let me start off with this: We pass a cost-of-living adjustment each year, X percent.

Ms. SPRINGER. Right.

Senator VOINOVICH. Is that amount of money reflected in the budget of the departments or do they have to funnel these raises from existing funds?

Ms. SPRINGER. Yes.

Senator VOINOVICH. And that is the money that you have to work with.

Ms. SPRINGER. That is my understanding. And then, in addition, obviously, there is the bonus pool as well.

Senator VOINOVICH. Is that an extra sum of money that departments are given, a bonus pool?

Ms. SPRINGER. In developing their budget requests, agencies project personnel costs across their entire workforce. "Personnel compensation and benefits," the budget class or category that includes General Schedule salary increases and awards, also includes SES pay increases and awards. In estimating the amounts needed, agencies rely on historical projections. OMB's government-wide budget preparation instructions (OMB Circular A-11) include directions on how to reflect the effects of pay raises and assumptions about those raises. Given the timing of the government's budget and appropriations processes, these assumptions are estimates. OMB's budget preparation instructions do not ask agencies to isolate SES compensation from that of the general workforce. OPM is not in a position to instruct agencies on how they should allocate funds for executive compensation when they develop their operating budgets after receiving their appropriations.

With respect to SES bonuses, more specifically, it must be noted that for the SES, a performance award is part of the overall delivery mechanism for SES compensation, as legislated by the Civil Service Reform Act of 1978. Agencies must adhere to the funding limitations regarding the amount of performance awards paid in any fiscal year, which are found in 5 U.S.C. 5384(b)(3). They usually do this by establishing an SES bonus pool. The actual allocations used to fund this awards pool are covered in the agency's annual operating budget process, as salaries and expenses (or equivalent).

Senator VOINOVICH. It is my understanding that since the implementation of the pay-for-performance system, there is no guarantee

of a pay adjustment for successfully rated employees. One of the purposes of this system is to reward those that should be rewarded.

The enabling statutes of the new systems at the Department of Homeland Security and the Department of Defense also do not have such a requirement. But the guarantee for at least a market adjustment was incorporated in the final regulations of both systems. Has OPM opened, or is it revisiting, such a regulatory change for the SES?

Ms. SPRINGER. Yes.

Senator VOINOVICH. OK. You can do that by regulation.

Ms. SPRINGER. Well, I think we need to take a look at how it would actually, in practice, happen. So I don't want to say what the vehicle is. But we are open to exploring that.

Senator VOINOVICH. Well, I would like to conclude with this comment. First of all, I know you are working at it, and you have a lot of things on your plate. But I have invested an enormous amount of time in workforce refroms. One year from now I want the problems solved. That means that you get in there with a microscope, and sit down with the organization that represents the SES. I want this thing to be perfect. If it is not—how do you expect us to have a successful rollout of this into other areas of the Federal Government?

It is really disturbing to me, honestly, that this has not worked the way it should work. I want it to work.

Ms. SPRINGER. May I just respond to that?

Senator VOINOVICH. Yes.

Ms. SPRINGER. Nobody wants it to work properly more than I do, and I think we have to be very careful that we do not take a survey a few hundred people out of over 6,000 in a new system where there are some execution issues and let that paint a picture that it either is a bad system or that it will not work. It can work, and it is working in many places.

Senator VOINOVICH. But may I tell you something?

Ms. SPRINGER. Yes.

Senator VOINOVICH. They should not be making the survey. You should be making the survey. Employee acceptance of the system is very important, but that does not mean that everybody is going to be happy. But, overall, people should say: You know what? This is neat. This is something that we have wanted for a long time.

Ms. SPRINGER. There is no question about it, and we do surveys. We have not done one here yet because, candidly, what we find is in surveys we have done of projects, demo projects, other projects, it takes several years before the system really takes hold and people see the value of it. And even there you typically get only to a 70- or 80-percent level of satisfaction with it, because there are some people who are not going to come around as well as others.

And so I think it is a little bit premature. I think it is helpful information. We take it seriously. As I say, I met the very first day that it came out with—to get briefed on it personally. There are things we are going to do. But I think we have to be very careful, not just on the basis of that one survey, to run to the conclusion that this is bad, it is not working. A lot of people are very happy; even in the survey it picks that up.

Senator VOINOVICH. Well, the fact is it is not where it is supposed to be. Do you agree?

Ms. SPRINGER. Agreed.

Senator VOINOVICH. OK. Has anybody ever sat down with David Walker and his team to talk to them about what they did in terms of when they implemented their program?

Ms. SPRINGER. We are very familiar with GAO's approach. When Comptroller General Walker undertook his multiyear efforts to transform GAO and its workforce, he invested in an expansive approach that developed, validated, and uses mission-focused competencies as the key driver. As you know, OPM's work leading the President's Management Agenda initiative on the Strategic Management of Human Capital has also focused agencies' attention on assessing and reducing gaps in the competencies their mission-critical occupations require. GAO went on to link its competencies to a broadly-drawn "performance management system" that covers and integrates a host of human resources management processes. Among those processes is the appraisal process itself where judgments are made about the degree to which expectations have been met and goals achieved. Within the Executive Branch, agencies subject to the Government Performance and Results Act of 1993 have been making progress in emphasizing a results focus and improving measurement of results. The Bush Administration has been determined to pursue that results focus with respect to executive and employee performance appraisal, so that has been the cornerstone of our effort to improve executive and employee performance management systems in the agencies. In many respects, the efforts of GAO and the Executive Branch are congruent. Our work differs to some degree in our results emphasis, particularly when it comes to making judgments about whether agencies' executive appraisal systems are making meaningful distinctions based on relative performance, as the law requires when OPM certifies those systems.

Senator VOINOVICH. Senator Akaka.

Senator AKAKA. Thank you very much, Mr. Chairman. I have other questions for Director Springer, I would like to submit the rest of my questions for Director Springer for the record.

Senator VOINOVICH. Without objection.

Thanks for your testimony, and we want to work with you. I know you have a tough job, but I want you to know that I have told Clay Johnson that I am going to spend as much time as I can working with OPM.

Ms. SPRINGER. Good.

Senator VOINOVICH. I think that you are on the way to shaping up OPM. I am proud of the progress that is being made, and we want to do everything we can to help you. I think it is really important, and I am going to get a letter off to my friend, Rob Portman, that in this area, they should be really looking at the budgets to make sure that you have got the resources that you need to go forward and do this right.

Ms. SPRINGER. Very good. We are always glad to get more money.

Senator VOINOVICH. Thank you.

Senator AKAKA. Thank you, Director Springer.

Senator VOINOVICH. Our next panel of witnesses, we have Brenda Farrell, Acting Director Strategic Issues, at the GAO; and Carol Bonosaro, President of the Senior Executives Association.

We thank both of you for being here today, and I appreciate the fact that both of you had an opportunity to hear the testimony of Ms. Springer, and I would welcome any comments that you have in regard to what she had to say here today. We are trying to get the best information we can before this Subcommittee.

Ms. Farrell, will you proceed?

TESTIMONY OF BRENDA S. FARRELL,[1] ACTING DIRECTOR, STRATEGIC ISSUES, GOVERNMENT ACCOUNTABILITY OFFICE

Ms. FARRELL. Thank you, Mr. Chairman.

Senator Voinovich, Senator Akaka, thank you for the opportunity to be here today to discuss the Federal Government's implementation of performance management systems for the approximately 7,000 members of the Senior Executive Service and those in senior positions. Let me briefly summarize my written statement that is based on findings from our issued reports.

First, I want to emphasize that implementing pay-for-performance systems is a huge undertaking for organizations and requires constant monitoring and refining in order to implement and, very importantly, sustain them successfully. How it is done, when it is done, and the basis on which it is done can make all the difference in their success.

My written statement is presented in three parts. The first addresses the performance management system's regulatory structure. Overall, the regulations that OPM and OMB develop to administer a performance-based pay system for executives serves as an important step for agencies in creating a clear linkage or line of sight between executives' performance and organizational results. To qualify for the pay flexibilities, OPM must certify, and OMB must concur, that an agency's system meets nine criteria. The certification criteria are generally consistent with key practices for effective performance management that GAO has identified in prior work.

The second part of my statement addresses agencies' views of OPM's certification process. In our ongoing work for this Subcommittee and the Senate Committee on Homeland Security and Governmental Affairs on OPM's capacity to lead and implement human capital reform, we asked agency Chief Human Capital Officers and Human Resource Directors to describe their experiences with OPM's administration of the revised executive performance system. We heard a number of concerns from agencies regarding OPM's ability to communicate expectations, guidance, and deadlines to agencies in a clear, consistent, timely manner.

For example, one official noted that while OPM tries to point agencies in the right direction, it will not give agencies discrete requirements. This leads to uncertainty about what agencies must and should demonstrate to OPM. Some agency officials told us that, in some cases, OPM changed expectations and requirements midstream, with little notice or explanations.

[1] The prepared statement of Ms. Farrell appears in the Appendix on page 00.

OPM explains that it intentionally allowed some ambiguity in the regulations for the new system, in an attempt to provide agencies with management flexibilities. However, OPM officials agree that agencies need better guidance and are working on improvements. The late issuance of guidance has also been problematic for agencies. OPM did not issue guidance for 2006 until January of that year and then clarified this guidance in a memorandum later that month.

The third part of my statement addresses the need for OPM's oversight of the implementation of agencies' senior executive performance systems. Most agencies have been challenged to receive the full certification, meaning that the agency is able to provide documentation showing that the agency has designed and fully implemented a system meeting all nine criteria. According to the latest OPM data, performance systems at 25 agencies have been certified during calendar year 2006. Of these, only the Department of Labor's SES system, as you earlier noted, received full certification. The remaining systems at 24 agencies received only provisional certification, meaning that the agency must provide documentation showing that its performance system meets design criteria but insufficient documentation exists to show that the system is fully implemented.

These findings are not surprising. As GAO has noted in its past work, agencies could find it initially difficult to provide the necessary performance data as required for the two appraisal periods preceding the certification request. In addition, we reported that many agencies have undertaken valuable efforts to link their executive management systems to their organizational successes, but agencies need to strengthen that linkage to use their performance systems more strategically to achieve organizational goals.

Agencies receiving full or provisional certification can use the higher pay rates. Going forward, it will be critical for OPM to continue to closely monitor the certification process to help ensure that provisional certifications do not become the norm and agencies reach full certification by not only developing but fully implementing systems for their senior executives.

In summary, performance-oriented pay should only be one part, a critical part, of a larger organizational effort to improve the performance of an agency. High-performing organizations understand that they need senior leaders who are held accountable for results, drive continuous improvement, and lead and facilitate efforts to integrate human capital approaches with organizational goals. Although there have been some challenges with the new senior executive performance system, what will be important is how OPM works with agencies to meet the full certification criteria.

Mr. Chairman, this concludes my statement. I will be happy to take questions when you are ready.

Senator VOINOVICH. Thank you very much. Ms. Bonosaro, welcome.

TESTIMONY OF CAROL A. BONOSARO,[1] PRESIDENT, SENIOR EXECUTIVES ASSOCIATION

Ms. BONOSARO. Chairman Voinovich, Ranking Member Akaka, I am delighted to be here today, and the Senior Executives Association truly appreciates your interest in this new SES pay and performance management system, as well as your invitation to testify.

As you know, many reports and studies have pointed to both the importance and the quality of the career Senior Executive Service corps, including the 1993 Volcker Commission, which observed, "No organization in this country is more dependent on qualified senior leadership than the Federal Government."

Given this, it is clearly in the public interest to attract and retain the best corps of senior executives possible and to compensate them and manage their performance in as fair and effective a manner as possible.

We have had a clear interest in seeing this new system with the higher pay caps be successful, and all the association's efforts have been directed to ensuring that result.

Over the past 2 years, we received complaints regarding the system's implementation. When those concerns about the new system persisted, we decided to conduct a survey to obtain information from the executives themselves regarding their experience with and views of the system. Through our partnership with Avue Technologies, we surveyed 850 respondents, which is approximately 12 percent of the career corps. We consistently urged executives, because this was a voluntary survey, that we wanted to hear from both those who believed the system was wonderful and those who believed it was not wonderful. In other words, we wanted to hear both the good and the bad.

The respondents' characteristics closely mirror that of the senior executive corps, and I think that is very important because they are, indeed, very representative. And especially important is the fact that the salaries of those surveys almost perfectly mirror that of the SES corps as a whole. Therefore, I think you cannot argue persuasively that the respondents hold negative views because somehow or other they have not fared as well as others in this new system.

So the end result, I think, is a survey that sought objective information, as well as opinion, and showed substantial evidence of problems in the implementation of the new system. To put it another way, although the provisions of the statute and the regulations—with a few clear exceptions, in our view—made sense, something has been "lost in translation" as the system has been implemented.

The view of many survey respondents, as you know, is that agencies' implementation of the pay system has often resulted in a disconnect between ratings and pay adjustments, imposed systems of arbitrary quotas, and failed to be transparent.

While over 96 percent of respondents believe they should be held accountable for performance, 86 percent said the system had no effect on their performance, and 56 percent said it had no effect on

[1] The prepared statement of Ms. Bonosaro appears in the Appendix on page 00.

their motivation. But 40 percent saw the system as having a negative effect on morale.

The survey results clearly show three major issues that must be addressed: Many senior executives believe that de facto quotas are being enforced that are affecting their performance ratings; senior executives see no clear, consistent correlation between ratings and pay adjustments; and senior executives doing a good job at the fully successful or higher level often receive no salary adjustment.

Simply put, the SES pay-for-performance system needs attention.

Senator VOINOVICH. You mean 15 percent of the highest rated people got no increase?

Ms. BONOSARO. Well, in fact, let me give you a little more detail on that because that was a number that took into account those in rating systems that involved 3, 4, and 5 levels. But if you look at those in 4-level systems, 7 percent of those with the very highest rating received no raise and no bonus; 5 percent of those with outstanding ratings in a 5-level system received no raise and no bonus.

Now, Director Springer notes that a fully successful rating is a good rating and should be seen that way. But I think the problem is that if there is no pay adjustment at least to keep pace with the cost of living that one might receive, if all pay adjustments are permissible and you are doing a successful job, then the system is not making much sense. And so that is why we recommend a legislative solution to resolve that problem.

Senator VOINOVICH. To make it mandatory?

Ms. BONOSARO. Yes.

Senator VOINOVICH. You are telling me that they did get a cost of living?

Ms. BONOSARO. Correct. All pay adjustments are permissible in the system, and they are all to be based upon performance. None are required, so we have had—in fact, if you read through the comments in the survey, there was one executive who was a Presidential Rank Awardee who received nothing for an outstanding rating. That sends a very wrong message.

Senator VOINOVICH. Is that in your survey?

Ms. BONOSARO. Yes.

Senator VOINOVICH. Specifically individuals that were in that category?

Ms. BONOSARO. Yes.

Senator VOINOVICH. OK.

Ms. BONOSARO. We also believe the SES pay system should be reformed to recognize the reality that performance awards should become a substantial part of SES compensation. They should count towards retirement, and our legislative proposal suggests a way to do this.

We also propose that an agency be required to inform an executive of his or her final rating and the reasons for it within a reasonable period of time, namely, 60 days. Seventeen percent of all respondents reported not having their ratings discussed with them at all last year, while 37 percent received only a cursory discussion.

We think our legislative proposals are especially necessary because the most disturbing finding is that, with 31 percent of the SES currently eligible to retire and 90 percent eligible to retire

over the next 10 years, 16 percent of the respondents indicated they are accelerating their plans to separate due to this new system.

Senator VOINOVICH. Sixteen percent?

Ms. BONOSARO. Sixteen percent. Forty-seven percent indicated the new system has had a negative effect on interest in the SES by GS–14s and GS–15s, and that I think is especially unfortunate.

As Senator Akaka noted, 53 percent of those surveyed agreed that agencies rated executives to achieve a forced quota in 2005. Therefore, we recommend a statutory prohibition against the use of quotas or forced distributions. We recognize that such a prohibition exists in regulation, but our hope is that with a statutory prohibition, perhaps agencies will take this more seriously.

We recommend that those entering the SES from the General Schedule be assured of a minimum 5-percent increase in their salary. At present, there is no requirement whatsoever, and agencies have adopted a variety of practices.

To resolve the continuous round of certification and recertification, we recommend that all certifications no longer be on a calendar-year basis but last for 60 months, especially since OPM can rescind recertification at any time. OPM should provide clear and consistent advice to agencies on how to comply with requirements for certification 6 months before the recertification application is due or before decertifying an agency.

Apart from the legislation we recommend, we believe that OPM and the agencies themselves must take steps to examine their practices and the problems identified in this report; namely, they must determine what has contributed to these results in spite of their best intentions. They need to look at the message sent, I think, by the focus each year in OPM's annual report on SES ratings, the focus on the number, the percentage of drop in the highest ratings given. I think that continual focus sends a message which may be unintended.

This is not an issue of pay. It is an issue of providing an SES system that is guided by the public interest. The successful mission accomplishment of the Federal Government depends on the expertise and skills of current and future highly qualified and experienced senior executives.

I will close with a comment from a survey respondent, and I hope that you have an opportunity to read many of the comments we provided in the report because they provide a very graphic illustration of the survey data. A senior executive from the Veterans Administration wrote, "I have done about as well as any executive could have asked for under the performance and pay system. My pay raises and bonuses have been among the highest in the agency. But I see systemic flaws which are, in fact, demoralizing significant portions of our SES cadre and will weaken its foundations in the future."

Thank you for your time.

Senator AKAKA. Mr. Chairman, I regret I must leave. I want to thank the Chairman for holding this important hearing and thank the witnesses for your testimony. And, Mr. Chairman, I would like to submit my questions for the record.

Senator VOINOVICH. Without objection, and we expect the witnesses to get back to Senator Akaka.

Thanks, Senator Akaka, for being here.

Ms. Bonosaro, were performance appraisals for the SES conducted before this new system?

Ms. BONOSARO. Yes.

Senator VOINOVICH. And was that uneven throughout the SES, some of it good, some of it bad?

Ms. BONOSARO. Well, we did a survey, in cooperation with OPM in 1999, and at that time we knew that we had some of these problems—in other words, some executives were not having regular performance appraisals, sit-down conversations, and so on.

I think one of the issues that has been misconstrued is when we look back, as Director Springer referred to, there were places that had 97 percent of their executives at the highest rating, however, that occurred primarily in agencies such as the Department of Defense with three-level systems, so the highest rating was fully successful. One would, therefore, expect you would have 97 percent of all people at that level.

I think performance evaluation has always been an issue, people making time for it, making it meaningful. But I think what we do know is that the executives who we talk to do not feel as though they need that kind of system to motivate them. They are so committed to their work, they work so hard, they are so interested in what they are doing and committed to the mission that a lot of them do not feel that this has added very much, frankly.

Senator VOINOVICH. Well, it is a lot of work.

Ms. BONOSARO. Yes.

Senator VOINOVICH. It really is. If anybody has done it, you know it is a lot of work. I did it when I was mayor, and it was tough to get people to do it, to have them spend the time. We do it in my office now.

It would seem to me, though, that members of the Senior Executive Service would welcome the opportunity to sit down and talk about what they are doing, what the goals are, how they fit in the organization, set goals, and then periodically review them. I know from experience that if somebody is doing a good job, they would like to be recognized for it.

Ms. BONOSARO. I think it is clear that they do agree with that, that if a system like this is handled in a meaningful way, of course, they would support it. If, as Director Springer says, goals are developed that make sense, that can be measurable without being quantifiable, and that in the end you are judged fairly on the basis of how well you did, instead of being told that, well, we just cannot go in with that many outstandings, so we are going to give you a fully successful. That is where the pin goes in the balloon.

Senator VOINOVICH. Probably what is driving that is money, isn't it?

Ms. BONOSARO. I think two things are driving it: In part perhaps money, but I think there is a perception somewhere along the way in the agencies that the way to be recertified is to come in with lower—keep lowering the number of executives being rated at the highest level.

Senator VOINOVICH. Well, basically what it should be is that you should call it as it is.

Ms. BONOSARO. Yes.

Senator VOINOVICH. You don't sit down with a bell curve. It should be based on reality and not on some type of comparative or quota system.

Ms. BONOSARO. Well, if we, in fact, had a bell curve that reflected reality, then you would have to wonder whether our selection process for the SES were a problem, because we expect these people to be very high performers.

Senator VOINOVICH. To be outstanding. Right, I get it.

Ms. BONOSARO. Yes.

Senator VOINOVICH. Are you familiar with the system at the Department of Labor?

Ms. BONOSARO. No.

Senator VOINOVICH. I would really be interested to know what it is that they are doing to have gained full certification.

Ms. BONOSARO. Yes.

Senator VOINOVICH. It would be interesting to find out from your folks over there how they feel about it and what things were put in place there that are absent from other places.

Ms. BONOSARO. We can certainly try to do that. I think the one caution I would make is that I would strongly suspect that if we look at the report, there are agencies that were provisionally certified as well. It may be that what got an agency certified may not necessarily result in a better record on the kind of problems that we have identified, because I think that there is a disconnect somewhere along the way. I think most of the Chief Human Capital Officers would tell you, for example, that they have done everything possible to make the system transparent, that they do not understand why these executives say they have never seen the report or they do not know anything about how other people are rated, or how they stack up to others in the agency. But yet that is what we hear.

So somehow or other, that is why I think that not only OPM but the agencies themselves have to sit down and take a hard look at where this is getting lost in translation along the way.

Senator VOINOVICH. Well, you know, I would really appreciate some help on that because if somebody gets a certification, not provisional but a real certification, it indicates to me that they have got a system in place where the people that are in the system feel that it is a good system, that they have had the training and all the other incidental things that are necessary to make it successful.

Ms. BONOSARO. I think one of the good questions to ask—and we have tried to learn this ourselves without very much success—is to gain a real understanding of what the requirements are in that certification process.

I do know that they look at a sample of performance standards for senior executives to determine that they are, in fact, using measurable standards. But beyond that, I am not certain that they are asking, well, how are you training others in utilizing this system, for example.

I suspect, from what I hear and from talking with OPM staff, that they are requesting data, they are looking at standards, but I think the question of how are you putting this in place—are you doing training and so on?—may be the missing link. But I do not know that for a fact.

Senator VOINOVICH. Ms. Farrell, have you had a chance to look at what I have just been talking about and what some of these agencies are doing? Can you give me an idea, if you have one, what are the things in place that are making one system more successful than another one? Is there a formula that you have that can guarantee that—maybe not guarantee, but at least lend itself toward being successful with what we are trying to accomplish here?

Ms. FARRELL. I think you are right, Mr. Chairman, best practices need to be shared, and the agencies that we have spoken with, including DOD, are hungry to learn how to move forward not only beyond establishing the framework for a performance-based system but how to implement it. I think that most of these agencies do have a handle on how to design such a system, but they do not know how to move forward with implementation.

There could be lessons learned, obviously, from DOL because they have taken that next step. They are the only agency for this calendar year that does have a system that is fully implemented. That tells me that they are adhering to the nine criteria in regulations, which I noted earlier in my statement, follows the key practices that high-performing agencies use to be effective with performance management.

I think that the CHCO Council is one venue to share the best practices, and we have been meeting with OPM and do know that the CHCO Council is planning to do more in that particular area of sharing the certification lessons learned.

Senator VOINOVICH. I asked Ms. Springer the question of does she have the resources to effectively certify agencies. That is key. The answer to that was yes. Do you agree with that?

Ms. FARRELL. Well, as you know, we have an engagement underway that is looking at OPM's capacity to lead reforms such as the SES certification process, and they have been in a transformation themselves since 2003 of going from the rulemaker to the toolmaker. I do not think it is just a question of do they have enough people, but do they have the people with the right skills to help agencies, not just see if an agency is in compliance with certification requirements, but help the agency understand how to develop a road map or implement that road map into implementation for a performance-based appraised system.

Senator VOINOVICH. When is that report going to be issued?

Ms. FARRELL. That will be due to you late November of this year.

Senator VOINOVICH. Well, I have been trying to get OMB to guarantee that agencies have the resources to do the job that they are being asked to do. One of the things that disturbs me is that the nondefense discretionary part of the budget is the one that is getting squeezed. If you look at some of these agencies, you are finding that they are flat-funded and, in fact, their budgets have gone down because they are not being adjusted for inflation, and they are just being squeezed to death. I will be anxious to see what your report has to say in that regard.

Are you familiar at all, Ms. Bonosaro, with what they are doing over at OPM with the staff that do the certification?

Ms. BONOSARO. Well, we developed an awful lot of paper for a long time, thinking we were obtaining the plans that were coming in for certification, until we learned one day that the actual performance management plans that were acceptable were ones that had been, in fact, approved even prior to this new system, and that where the action was was in the review of these standards and looking at a lot of data about pay adjustments and ratings and so on, which is why I agree with what GAO has found. They are focusing on the structure of a system, but not what happens when you actually put that into implementation, as best we can tell.

Senator VOINOVICH. Is GAO in favor of this, if done properly? Or do you think this is a hassle and agencies should not get involved in it?

Ms. BONOSARO. Well, frankly, we thought we had pay for performance because, as you know, the SES had a system of bonuses and Presidential Rank Awards. But as you also know, we had tremendous pay compression before this new system.

Senator VOINOVICH. Yes, pay compression.

Ms. BONOSARO. Tremendous. So this gave us the——

Senator VOINOVICH. And we lifted that. We worked very hard.

Ms. BONOSARO. Yes.

Senator VOINOVICH. They were limited, and we have increased that cap. Then when they were receiving bonuses they would not receive the full amount in a year because they would exceed the cap.

Ms. BONOSARO. Yes, and we dealt with the annual compensation limit.

I think what is unfortunate in the new system, though, is that we did lose locality pay for these people, which is another issue that we have addressed in our legislative recommendations, and that presents a real issue when you think about moving a senior executive, which as you know, is part of the system. That is the risk you take, to be geographically reassigned. Well, right now, God help you if you get moved from Kansas City to San Francisco, because there are no locality pay adjustments. And that, plus permissive cost-of-living adjustments, if you combine this, a lot of this together, the net result is you have those talented and smart GS–14s and GS–15s who should be aspiring to the SES now looking at it saying, Why would I want this?

And so our view is we have got to make this system work. It has got to work well. And these are also the people who would be implementing a system for the rest of the civil service. So they have got to feel that they know that this can work well if they are going to make a system like this work well for those beneath them.

Senator VOINOVICH. Ms. Farrell, as GAO has evaluated other personnel reforms, has GAO found the initial response the same kind that we have had out of this recent survey? Are you familiar with the survey?

Ms. FARRELL. Well, the survey, as you know, was released last Monday. I am familiar with it. We have not studied the methodology. The study is a piece of information that adds, I think, some value. We feel that OPM should not just be relying upon numbers.

It is important to consider if the agency's performance-based system takes into account the client's needs as well as the employee's. Surveys are one measure to determine if the employees are actively involved in the design of the system. To our knowledge, the Federal Human Capital Survey has not taken employee feedback into account or how the agencies been doing with their administration of the performance-based system since 2004. Employee feedback on appraisal systems is something that could be rolled into that survey.

Senator VOINOVICH. Well, I would be interested to get all this information together to give us some kind of a blueprint as to what needs to be done here in the next year or so to shape this up, and perhaps get together more often with folks over there to make sure that it happens.

The SEA has recommended a statutory change to prohibit quotas or forced distribution of ratings under the system. However, the regulations already prohibit quotas and forced distribution.

How do you feel, Ms. Bonosaro, that a statutory provision would be more effective than the current regulation?

Ms. BONOSARO. Well, obviously we have not proposed any penalties here, but we hope that agencies would be inclined to take a statutory prohibition more seriously.

There was one case of what we thought was pretty clear evidence of a quota in effect at one agency, where there was a set of PowerPoint slides that were being used to brief on the new system, one of which was literally a normal distribution curve. And we reported that to OPM. We never did learn what action they took, but our understanding was later that the recommendation was, well, why don't you eliminate the slide, but we understand that this is just a—it was referred to as a "notional concept."

So that to us did not seem to send a very strong signal that this is not the way to implement this system.

Senator VOINOVICH. Again, getting back to what I asked earlier, has your organization looked at what different agencies have done for training and preparation to go forward with pay-for-performance systems?

Ms. BONOSARO. No.

Senator VOINOVICH. You have not. How about GAO? Will that be in this report?

Ms. FARRELL. No, that specifically will not. Our report looks at not just the SES certification, but other activities that OPM has had underway. The last time we looked at performance-based systems for the senior executives was in 2004, right before this new certification process was launched. At that time a number of agencies had efforts underway to fully implement performance-based systems, but they weren't quite there yet with implementations. Obviously there are best practices. We are just not there yet.

If I can say, Mr. Chairman, we do feel that pay-for-performance starts at the top with the senior leaders. The senior leaders lead by example, and much can be learned from the experience, as you acknowledged earlier, of implementing such pay reforms for the senior leaders that then will cascade down to employees in the rest of the agency. It is part of an executive's stewardship responsibility

for continuous improvement, and a performance-based system is a tool to help reach that end.

Senator VOINOVICH. Well, as I said, it would be interesting to see what things Comptroller General Walker and his team put in place to make this a successful system, and what may be applicable to other agencies. In other words, here are the ten things that you need to do if you want to have a successful system. Training is a big thing.

Ms. FARRELL. Right.

Senator VOINOVICH. Communication is another one; the kind of commitment that is made from top management that this is a priority, and will be done right. The system should show employees how their job translates into the organization doing a better job than what it was doing; the feeling of individuals that are in the system that it is a fair system, it is transparent, it is not arbitrary, some of the other criteria. I would suspect that if we did a real investigation into agencies, we would find out that some have done a terrific job in that area and others have not done the job.

That is why I made reference to the Spiral 1.1 at NSPS, that I think they have done a terrific job of educating and informing people, and up to now they are buying into it. We will see how it works out. So, I am anxious to see your report and look at some of these other things. I would welcome any other thoughts. I know you have made some recommendations for statutory changes. I would be more than happy to look at them, sit down with Senator Akaka, and see if we can get some kind of consensus on them.

The SES are the leaders in the government, and a potential 90 percent turnover in 10 years is frightening. I think back in 2001 when I said by 2005 we were likely to lose—what was it? I think 55 percent or even more of the workforce. I do not think we have lost them as some anticipated, have we?

Ms. BONOSARO. No, although I think the numbers are inching up a bit because OPM's retirement projections are continually changing now, I gather, at least for the SES, based upon the experience they are seeing. So it probably is inching up, but not only do we want to keep them as long as we can, but the critical thing that we are concerned about, indeed, is who will follow in their footsteps.

Senator VOINOVICH. Yes. You said 15 percent of them are thinking about tipping their hat earlier. I mean, the truth of the matter is that many of these agencies are being run by folks that could leave now, and they are sticking around, frankly, I think, because they believe in their country and feel good about the work that they are doing and making a contribution. We certainly want to make sure that they are happy with that and not have a system that encourages them to leave.

Ms. BONOSARO. Well, unfortunately, that is a lot of what comes through in the comments, and it is very sad because there are people who absolutely love what they are doing and care about their country, and in a couple of cases they say, "I have got to get out the door because what I am being subjected to"—as I say, how it got translated down the line, "just makes no sense."

Senator VOINOVICH. I want to ask you one last question. I have been promoting, as Comptroller General Walker has, the creation

of a Chief Management Officer in both the Departments of Homeland Security and Defense to really be dedicated to systemic change. That individual would serve a 7-year term so that some of these things that we are attempting to do have continuity. And from my experience as a mayor and governor, systemic change takes a long time to get done.

What do you think about that?

Ms. BONOSARO. Well, actually I do not think about that because our board of directors has to think about that. We discussed your proposal briefly a little while back, and our board has to come back to it because they do take an issue like that seriously, and will be happy to weigh in with you.

Senator VOINOVICH. OK. In other words, they have not taken it up yet?

Ms. BONOSARO. Correct.

Senator VOINOVICH. I would really appreciate it if they did. I lobbied Congress for 18 years as mayor, governor, Chairman of the National Governors Association, and President of the National League of Cities. What discouraged me so often was how administrations often ignored the expertise of the folks that really run the place. I hope that more of them feel like they are not being ignored today than they were in the past. They want to see organizations change for the better. It seems to me that a lot of stuff just stops until the new political team is in place, which can take a year. That is the reason I think that having someone in charge of management would make a great deal of sense. So I appreciate your looking at it.

Ms. BONOSARO. We will be happy to.

Senator VOINOVICH. And I know, Ms. Farrell, that Comptroller General Walker feels strongly about it.

Ms. FARRELL. Yes, he does.

Senator VOINOVICH. As I say, I would like you to look at it because none of these things get done around here until you get a little traction, and you do not get traction until people that are respected in organizations say this is a sensible thing to do.

I want to thank you very much. This has been a very good hearing. I am glad we had it. I keep asking people, How is the SES pay-for-performance going? These reforms are so important. If we cannot get this thing in the SES, the chances of growing and cascading are out. Forget it, you know.

Ms. BONOSARO. Yes.

Senator VOINOVICH. So we want to work with you and make it a success.

Ms. BONOSARO. Wonderful. We appreciate that.

Senator VOINOVICH. Thank you. The hearing is adjourned.

[Whereupon, at 12:33 p.m., the Subcommittee was adjourned.]

APPENDIX

STATEMENT OF
THE HONORABLE LINDA M. SPRINGER
DIRECTOR
OFFICE OF PERSONNEL MANAGEMENT

before the

SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL WORKFORCE AND THE DISTRICT OF COLUMBIA
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

on

SENIOR EXECUTIVES:
LEADING THE WAY IN FEDERAL WORKFORCE REFORMS

SEPTEMBER 26, 2006

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to appear before you today to discuss progress to date on the implementation of a pay-for-performance system for members of the Senior Executive Service (SES). I want to thank you, Senator Voinovich, for the continuing support you and other Members of the Subcommittee have demonstrated for effective performance management. In particular, I appreciate your support for providing the statutory authority for a performance-based system for SES members under the National Defense Authorization Act of 2004.

The Office of Personnel Management (OPM) is playing a pivotal role in ensuring the successful implementation of the pay-for-performance system for the SES. Our role is twofold. First, OPM is committed to providing agencies the assistance they need to

design and implement these systems successfully. Working through published guidance, agency training events, and the everyday efforts of OPM's individual agency human capital officers, we are partnering with agencies on the successful deployment of a performance-based compensation system.

OPM's second role is to oversee the effectiveness of these systems, chiefly through the certification process outlined in the statute. Under the law, agencies must receive performance system certification from OPM before their SES members can be paid above level III of the Executive Schedule. To guide agencies through the process, OPM published detailed regulations with criteria for certification in 2004, and has provided additional guidance as needed since. We scrutinize agency submissions carefully and certification is granted as either a "provisional" or one-year certification or a "full" two-year certification, depending on the extent to which the agency has met the criteria. Certification decisions require the concurrence of the Office of Management and Budget.

We are completing the third year of the certification process, and agencies' data submissions have improved significantly since the first review. In the past, Federal executive performance plans and measures had generally focused more on activity, and less on achievement. Today, well-documented performance plans with measurable goals closely aligned to mission requirements are the norm.

The certification submission package also includes information on ratings, as well as average increases in base salary and performance awards paid. According to the most

recent information received by OPM, progress is being made in this area as well. Agencies are using multi-level systems effectively and making meaningful distinctions in ratings. We have seen increasing linkage between the general level of executive ratings and indicators of overall organizational performance.

Transformations of this type take time, and agencies are continuing to perfect the required elements of performance plans and measurement. To date, only a few agencies have been approved for full certification. Although it remains a work in progress, we believe that certification is having the desired effect of driving improvement in agency performance management. We are currently preparing guidance for the 2007 certification cycle, highlighting areas of improvement for agencies to address in their upcoming submissions. We anticipate continued progress next year.

Implementation and oversight of the system have been complicated by a gap in the underlying statute. Under the current law, agency certification expires at the end of the calendar year. Most agencies, however, complete their performance payouts from the previous year in January, which delays their certification submission to OPM, often until several months into the calendar year. As a result, most agencies have a gap of time beginning January 1 until their certification submission is submitted and approved where they cannot hire new SES members at a rate higher than the rate for Executive Schedule level III and cannot increase pay for SES members who are already at or above the rate for level III. Agencies have been disadvantaged in their recruitment of senior executives during this time.

Earlier this year, OPM issued regulations to provide some relief. When agencies receive certification of their performance management and pay systems, they may now provide pay increases to SES members impacted during the time when the agency's system was not certified. This is only a partial fix, however, and we ask that this Subcommittee consider the draft legislation we submitted to the Congress on June 2, 2006, eliminating the calendar year basis for certification. We would propose an agency's certification remain in effect for up to 24 months from the date of last certification.

Another limitation inherent in the current statutory framework is the inability of senior-level (SL) and senior scientific and technical personnel (ST) to have access to Executive Schedule level II pay. As a result, these senior leaders are deprived of the incentive of a higher compensation opportunity.

OPM is committed to systems of compensation that reward Federal employees for performance, in contrast to those systems driven by longevity. We steadfastly believe the SES pay system is a good system. We recognize, however, that there may be some inconsistencies with how the new system is being implemented across the Government.

We are reviewing the study released last week by the Senior Executives Association and believe it will help us understand areas where managers may be executing the system improperly. We will address specific issues with the Chief Human Capital Officers Council.

I remain firmly convinced that pay-for-performance is critical to the success of Government and will achieve even greater results as we work to improve its operation both at the Senior Executive Service level and throughout all levels of Government.

Mr. Chairman, thank you again for the opportunity to be here today. I'd be happy to answer any questions you or other Members may have.

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia, Committee on Homeland Security and Government Affairs, U.S. Senate

For Release on Delivery
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HUMAN CAPITAL

Aligning Senior Executives' Performance with Organizational Results Is an Important Step Toward Governmentwide Transformation

Statement of Brenda S. Farrell
Acting Director
Strategic Issues

GAO-06-1125T

September 26, 2006

GAO
Accountability·Integrity·Reliability

Highlights

Highlights of GAO-06-1125T, testimony before the Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

The government's senior executives need to lead the way in transforming their agencies' cultures. Credible performance management systems—those that align individual, team, and unit performance with organizational results—can help manage and direct this process. In past work, GAO found that the performance management systems for senior executives fell short in this regard. In November 2003, recognizing that reforms were needed, Congress authorized a new performance-based pay system that ended the practice of giving annual pay adjustments to senior executives. Instead, agencies are to consider such factors as individual results and contributions to agency performance. If the Office of Personnel Management (OPM) certifies an agency's new performance system and the Office of Management and Budget (OMB) concurs, the agency has the flexibility to raise the pay of its highest performing senior executives above certain pay caps.

This testimony addresses (1) the performance management system's regulatory structure, (2) OPM's certification process and agencies' views of it, and (3) OPM's role in monitoring the system, and the number of agencies that have been certified to date. This statement is based on GAO's issued work, which included interviews with senior OPM officials, agency Chief Human Capital Officers and Human Resource officers, and reviews of agency documents.

www.gao.gov/cgi-bin/getrpt?GAO-06-1125T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Brenda S. Farrell at (202) 512-3604 or farrelb@gao.gov.

HUMAN CAPITAL

Aligning Senior Executives' Performance with Organizational Results Is an Important Step Toward Governmentwide Transformation

What GAO Found

Overall, the regulations that OPM and OMB developed to administer a performance-based pay system for executives serve as an important step for agencies in creating an alignment or "line of sight" between executives' performance and organizational results. To qualify for the pay flexibilities included in the statute, OPM must certify and OMB must concur that an agency's performance management system meets nine certification criteria, including demonstrating that its performance management system aligns individual performance expectations with the mission and goals of the organization and that its system as designed and applied makes meaningful distinctions in performance. The certification criteria are generally consistent with key practices for effective performance management systems GAO identified that collectively create a line of sight between an individual's performance and an organization's success. To receive a full 2-calendar-year certification, an agency must document that its senior executive performance management system meets all nine of the criteria. Agencies can meet four of nine criteria and demonstrate that their system in design meets the remaining certification criteria to receive 1-year provisional certification and use the higher pay rates.

Two divisions in OPM, as well as OMB, independently review agencies' certification submissions. A number of agencies GAO contacted expressed concern over OPM's ability to communicate expectations, guidance, and deadlines to agencies in a clear and consistent manner. OPM officials agreed that agencies need better guidance and were working on improvements.

In monitoring agencies' performance management systems, OPM can suspend an agency's certification at any time with OMB concurrence if an agency is not complying with the certification criteria. According to OPM data, performance management systems at 24 agencies were certified during calendar year 2006. Of these, only the Department of Labor's system received full certification; the remaining systems received only provisional certification. These findings are not surprising. As GAO has noted in its past work, agencies could find it initially difficult to provide the necessary performance data to receive full certification. Going forward, it will be important for OPM to continue to monitor the certification process to help ensure that provisional certifications do not become the norm, and agencies develop performance management systems for their senior executives that meet all of OPM's requirements.

The new performance management system for the government's senior executives will help agencies align individual, team, and unit performance with organizational results. Although there have been some implementation challenges, what will be important is how OPM works with agencies to meet the certification criteria. Moreover, the lessons learned in implementing the senior executive performance management system can be applied to modernizing the performance management systems of employees at other levels.

Chairman Voinovich, Senator Akaka, and Members of the Subcommittee:

Thank you for the opportunity to be here today to discuss the federal government's implementation of pay-for-performance systems for the approximately 7,000 members of the Senior Executive Service (SES) and those in other senior positions. As we have consistently testified, and as the Subcommittee has recognized, an agency's human capital is its most important catalyst for transforming government to meet the current and emerging challenges of the 21st century. We have also highlighted how federal human capital systems designed in the past are outmoded and, in some cases, barriers to an agency's transformation.

In our earlier work on senior executive performance management, we noted how high-performing organizations have recognized that a critical success factor in fostering a results-oriented culture is a performance management system that creates a "line of sight" showing how unit and individual performance can contribute to overall organizational goals and helping them understand the connection between their daily activities and the organization's success. We also discussed how high-performing organizations understand that they need senior leaders who are accountable for results, drive continuous improvement, and stimulate and support efforts to integrate human capital approaches with organizational goals and related transformation issues.[1]

In 2002, we reported that significant opportunities existed to strengthen agencies' efforts to hold senior executives accountable for results through their performance management systems.[2] In particular, we reported that more progress was needed in explicitly linking senior executives' performance expectations to the achievement of results-oriented organizational goals, fostering the necessary collaboration both within and across organizational boundaries to achieve results, and demonstrating a commitment to lead and facilitate change.

Over the past few years, Congress and the administration have sought to modernize senior executive performance management systems. In November 2003, Congress established a new performance-based pay

[1] GAO, *Human Capital: Senior Executive Performance Management Can Be Significantly Strengthened to Achieve Results*, GAO-04-614 (Washington, D.C.: May 26, 2004).

[2] GAO, *Results-Oriented Cultures: Using Balanced Expectations to Manage Senior Executive Performance*, GAO-02-966 (Washington, D.C.: Sept. 27, 2002).

system as part of the National Defense Authorization Act for Fiscal Year 2004[3] that is designed to provide a clear and direct linkage between performance and pay for the government's senior executives. Additionally, aspects of the legislation can help address two shortcomings with the previous pay system: pay compression, and the failure of agencies to make meaningful distinctions among senior executives' job performances. Pay compression occurred in part because the previous system had six pay levels. Because of pay caps and other factors, senior executives at the top three levels received essentially the same amount of base pay in a given year. For example, we reported that about 70 percent of SES members received the same basic pay due to compression in 2003.[4] At the same time, the administration believed that agencies' performance management systems were not making meaningful distinctions in senior executives' performance as demonstrated by the large percentage that consistently received the highest ratings possible.

The new pay system ended the practice of giving annual across-the-board or locality pay adjustments to senior executives. Instead, agencies are to base pay adjustments for senior executives on individual results and contributions to the agency's performance by considering the individual's accomplishments and such things as unique skills, qualifications, or competencies of the individual and the individual's significance to the agency's mission and performance. The system also replaced the six SES pay levels with a single, open-range pay band. Further, agencies can apply for certification of their performance appraisal systems by the Office of Personnel Management (OPM), with Office of Management and Budget (OMB) concurrence. Once an agency is certified, it has the flexibility to raise the pay of its highest performing SES members above certain pay caps. As an example, those agencies with certified performance management systems can increase base pay to $165,200 for 2006. This compares to a cap of $152,000 for base pay for those agencies without certified systems. OPM and OMB jointly issued regulations establishing the criteria for obtaining this certification in July 2004.

In addition to SES employees, many agencies use senior employees with scientific, technical, and professional expertise, commonly known as senior-level (SL) and scientific or professional (ST) positions. SL/ST

[3] Pub.L. No.108-136, Nov. 24, 2003.

[4] GAO, *Human Capital: Trends in Executive and Judicial Pay*, GAO-06-708 (Washington, D.C.: June 21, 2006).

positions have a lower maximum rate of basic pay than SES employees, and unlike the SES, their individual rate of pay does not necessarily have to be based on individual or agency performance. However, an agency may apply to OPM and OMB for certification of its SL/ST performance management system, and if the system is certified as making meaningful distinctions in relative performance, an agency may raise the total annual compensation maximum for SL/ST employees to the salary of the Vice President. However, certification does not affect the maximum rate of basic pay of SL/ST employees.

We believe the new senior executive pay-for-performance system is an important step in aligning individual, team, and unit performance with organizational results. Indeed, high-performing organizations have recognized that their performance management systems are strategic tools to help them manage on a day-to-day basis and achieve organizational goals in part by linking their senior executive performance management systems to their organizations' success. Moreover, the lessons learned from implementing the new senior executive pay system can inform efforts to modernize the pay systems under which other federal employees are compensated. Indeed, cascading aspects of this approach to other levels of employees can help agencies recognize and reward employee contributions and achieve the highest levels of individual performance.

In my remarks today, I will discuss (1) the regulatory structure of the senior executive pay system and the importance of achieving a line of sight between executives' performance and organizational success by linking pay with performance, (2) the agency certification process and agencies' views of it, and (3) OPM's role in evaluating and monitoring the system, and the number of agencies that have been certified to date.

Mr. Chairman, as you know, the Senate Committee on Homeland Security and Governmental Affairs and your Oversight of Government Management, the Federal Workforce, and the District of Columbia Subcommittee requested that we conduct a review of OPM to identify management challenges that could affect its ability to lead human capital reform efforts. As part of our review, we have interviewed or obtained written responses from all 23 members of the Chief Human Capital Officers Council (CHCO) and/or their corresponding agency human resource (HR) directors to gain a customer perspective of OPM's products and services and their views of OPM management challenges. We obtained agencies' views on their experiences with OPM's certification of SES pay-for-performance systems. Our forthcoming report on this work will be issued in November 2006 and will include the agencies' experiences with

the certification process, as well as recommended actions to enhance OPM's capacity to lead and implement human capital reform overall. My statement today is based on our issued products which were conducted in accordance with generally accepted government auditing standards.

The Regulatory Structure of the Senior Executive Performance Management System Helps Link Executives' Performance to Organizational Results

Overall, the regulations that OPM developed to administer a performance-based pay system for senior executives serve as a substantive and positive step for agencies in holding senior executives accountable for their performance and contributions to organizational success. The new senior executive pay system raises the cap on base pay and total compensation. For 2006, the caps are $152,000 for base pay (Level III of the Executive Schedule) with a senior executive's total compensation not to exceed $183,500 (Level I of the Executive Schedule). If an agency's senior executive performance management system is certified by OPM and OMB concurs, the caps are increased to $165,200 for base pay (Level II of the Executive Schedule) and $212,100 for total compensation (the total annual compensation payable to the Vice President).

To qualify for these flexibilities, agencies' performance management systems need to meet nine specified certification criteria, including demonstrating that the systems align individual performance expectations with the mission and goals of the organization and that its appraisal system as designed and applied makes meaningful distinctions in performance.

To receive a full 2-calendar-year certification, an agency must provide documentation that its senior executive performance management system meets all nine of the criteria. Otherwise, agencies can meet four of nine criteria and demonstrate that their system in design meets the remaining certification criteria to receive 1-year provisional certification and use the higher pay rates. Agencies with 1-year provisional certification must reapply annually, and agencies with full certification must reapply every 2 years. Those agencies with more than one performance management system for their senior executive employees are to certify each system separately.

The certification criteria are framed as broad principles designed to serve as guidelines to position agencies to use their performance management system(s) strategically to support the development of a strong

performance culture and the attainment of the agency's mission, goals, and objectives. The certification criteria are generally consistent with our body of work identifying key practices for effective performance management.[6] Specifically, we identified key practices, including aligning individual performance expectations with organizational goals, linking pay to individual performance, and making meaningful distinctions in performance, that collectively create a line of sight between an individual's performance and an organization's success. These practices are reflected in the final certification criteria.

Key aspects of the OPM certification criteria, as outlined in the regulations, are as follows:

(1) Alignment: Individual performance expectations must be linked to or derived from the agency's mission, strategic goals, program/policy objectives, and/or annual performance plan.

(2) Consultation: Individual performance expectations are developed with senior employee involvement and must be communicated at the beginning of the appraisal cycle.

(3) Results: Individual expectations describe performance that is measurable, demonstrable, or observable, focusing on organizational outputs and outcomes, policy/program objectives, milestones, etc.

(4) Balance: Individual performance expectations must include measures of results, employee and customer/stakeholder satisfaction, and/or competencies or behaviors that contribute to outstanding performance.

(5) Assessments and Guidelines: The agency head or a designee provides assessments of the performance of the agency overall, as well as each of its major program and functional areas.

(6) Oversight: The agency head or designee must certify that (1) the appraisal process makes meaningful distinctions based on relative performance; (2) results take into account, as appropriate, the agency's performance; and (3) pay adjustments and awards recognize individual/organizational performance.

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

(7) Accountability: Senior employee ratings (as well as subordinate employees' performance expectations and ratings for those with supervisor responsibilities) appropriately reflect employees' performance expectations, relevant program performance measures, and other relevant factors.

(8) Performance Differentiation: Among other provisions, the agency must provide for at least one rating level above Fully Successful (must include an Outstanding level), and in the application of those ratings, make meaningful distinctions among executives based on their relative performance.

(9) Pay Differentiation: The agency should be able to demonstrate that the largest pay adjustments and/or highest pay levels (base and performance awards) are provided to its highest performers, and that, overall, the distribution of pay rates in the SES rate range and pay adjustments reflects meaningful distinctions among executives based on their relative performance.

In commenting on OPM's draft regulations, we included suggestions intended to help agencies broaden the criteria to reinforce cultures that are results oriented, customer focused, and collaborative in nature. For example, we suggested that OPM require agencies to have their senior executives identify specific programmatic crosscutting, external, and partnership-oriented goals or objectives in their individual performance plans to help foster the necessary collaboration, interaction, and teamwork to achieve results.

Further, based on our previous testimony that performance management processes need to assure reasonable transparency,[6] we noted the new performance management system should have adequate safeguards to ensure fairness and guard against abuse.[7] Specifically, we suggested that OPM require agencies to build in safeguards as part of their senior executive performance management systems when linking pay to performance. For example, communicating the overall results of the performance management decisions to the senior executives, while

[6] GAO, *Defense Transformation: Preliminary Observations on DOD's Proposed Civilian Personnel Reforms*, GAO-03-717T (Washington, D.C.: Apr. 29, 2003), p. 8.

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

protecting individual confidentiality, could help enhance the transparency of the performance management process. We also recognized that scalability needs to be considered, and that small agencies might face difficulties communicating overall results of the performance management process while protecting the confidentiality of the fewer numbers of senior executives. In response, OPM changed some aspects of its criteria by incorporating these suggestions into the interim final regulations.

The Process for Certifying Agencies' Submissions

Agencies can submit their applications to OPM for certification anytime during the year. If fully certified, the certification is good for the remainder of the calendar year in which the agency applied, as well as all of the following calendar year. If provisionally certified, an agency's certification is only good for the calendar year in which it applied. For example, if an agency is provisionally certified in October 2005, its certification would expire in December 2005. To ensure the agency's submission is complete, the agency's OPM contact—the Human Capital Officer (HCO)—first verifies that the application contains the required materials and documents. If complete, the HCO sends copies to the two OPM divisions responsible for reviewing the application, the Human Capital Leadership and Merit System Accountability (HCLMSA) division and the Strategic Human Resources Policy (SHRP) division, and an additional copy to OMB. An agency's submission is reviewed independently by representatives within HCLMSA and SHRP in an attempt to bring different organizational perspectives to the review.

A submission is reviewed against the nine certification criteria, but each review team has its own method for analyzing the application. After an initial examination, the reviewers from HCLMSA and SHRP hold an informal meeting to discuss the submission. The reviewers meet again in a formal panel after a more thorough review, and this time they are joined by the HCO. This panel decides whether they have enough information to reach a certification decision about the agency. If the panel concludes there is not enough information to reach a decision, the HCO will request that the agency provide any missing or additional supporting information. If the panel decides there is sufficient information to reach a decision, it will either certify or reject the application.

When an application is rejected, the HCO works with the agency to help modify its appraisal system so that it meets the criteria. If the application is approved, the HCO contacts OMB for concurrence. OMB uses the same nine criteria to evaluate agency applications, but primarily focuses on measures of agency performance. If OMB concurrence is not achieved, the

HCO works with the agency to address OMB's concerns until resolution is reached. Once OMB concurs, the Director of OPM certifies the agency's appraisal system and the HCO provides additional comments to the agency on their system and identifies any improvement needs. For example, these comments may direct the agency to focus more on making meaningful distinctions in performance.

Agencies' Experience in Implementing the Senior Executive Pay System Highlights Areas Where Improvements Might be Needed

In our ongoing work on OPM's capacity to lead and implement human capital reform, we asked agency chief human capital officers (CHCO) and human resource (HR) directors to describe their experiences with OPM's administration of the senior executive pay-for-performance certification process. As the Comptroller General testified before this Subcommittee in June 2006,[8] we heard a number of concerns from agencies regarding OPM's ability to communicate expectations, guidance, and deadlines to agencies in a clear and consistent manner. When the senior executive certification process began in 2004, OPM provided agencies with limited guidance for implementing the new regulations. OPM's initial guidance consisted of a list of documents required for provisional and full certification and a sample cover letter to accompany each application. The lack of more specific guidance created confusion as agencies attempted to interpret the broadly defined regulatory criteria and adjust to the requirements for certification. Officials at a majority of the CHCO Council agencies told us they did not have enough guidance to properly prepare for certification. As a result, agencies did not fully understand what was required in the regulations to receive certification.

For example, one official noted that while OPM tries to point agencies in the right direction, it will not give agencies discrete requirements. This leads to uncertainty about what agencies must and should demonstrate to OPM. Some CHCOs and HR directors also told us that, in some cases, OPM changed expectations and requirements midstream with little notice or explanation. However, OPM explains that it intentionally allowed some ambiguity in the regulations for the new senior executive appraisal system, in an attempt to provide agencies with management flexibilities. A senior OPM official said OPM did not provide agencies with "best practices"

[8]GAO, *Office of Personnel Management: OPM is Taking Steps to Strengthen Its Internal Capacity for Leading Human Capital Reform*, GAO-06-861T (Washington, D.C: June 27, 2006).

examples because OPM did not want agencies to think there was only one "right" way to get certified.

Agencies also indicated that because OPM did not issue guidance for calendar year 2006 submissions until January 5, 2006, some were unable to deliver their submissions to OPM before the beginning of the calendar year. Further, OPM clarified this guidance in a January 30, 2006, memorandum to agencies, telling agencies that senior executive performance appraisal systems would not be certified for calendar year 2006 if the performance plans did not hold senior executives accountable for achieving measurable business outcomes. As a result, agencies had to revise their submissions, where necessary, to meet OPM's additional requirements.

Some agencies indicated that OPM's late issuance of guidance also created an uneven playing field among agencies, as those that chose to wait until OPM issued guidance before applying for certification were unable to give their senior executives higher pay, while those who did not wait got certified sooner. OPM officials we spoke with about this agreed that they need to be able to provide clear and consistent guidance to agencies and said they are working to improve this. Further, they said their evaluation of agencies' submissions is evolving as their understanding of the senior executive certification criteria is increasing.

OPM's Role in Evaluating and Monitoring the Pay-for-Performance System

The regulations include several positive internal checks and balances that should help maintain the rigorous application of the new senior executive pay system. As I noted earlier, agencies granted full certification are to have their systems renewed for an additional 2 calendar years and agencies granted provisional certification are to reapply for certification after 1 calendar year in order to continue setting the rate of basic pay for senior executives at the higher level. In addition, OPM can suspend certification at any time during the certification period if it determines, with OMB concurrence, that the agency's system is not in compliance with the certification criteria. OPM's regulations also require review of each senior executive's rating by a performance review board appointed by the agency head. As noted above, the regulations also require oversight of the performance appraisal system by the agency head who must certify that the system makes meaningful distinctions in relative performance.

According to OPM data, 26 performance management systems at 24 agencies were certified during calendar year 2006.[9] Of these 26, only the Department of Labor's system received full certification. As of September 19, 2006, the remaining 25 systems received only provisional certification. These findings are not surprising. In our April 2005 testimony before this Subcommittee, we stated that a number of agencies would be challenged in the short term to provide the necessary performance data on their senior executives in order to receive full certification or to maintain their certification (agencies must provide 2 years of performance rating and bonus data showing that meaningful distinctions in senior executive performance were made to qualify).[10] Other factors might also be at work. For example, a number of agencies have told us that the certification process is burdensome. One agency said that OPM's requirements for the certification of a submission are time intensive, laborious, and can disrupt an agency's recruitment and retention efforts.

As we also noted at the April 2005 hearing, OPM will need to carefully monitor the implementation of agencies' performance management systems, especially those that have provisional certification. This is because, as I have stated earlier, agencies with provisional certification can still receive the flexibilities of the new pay system, even though they do not meet all of OPM's certification requirements. In other words, agencies can receive the benefits of the new pay-for-performance system without meeting all of its requirements and safeguards. We believe that, going forward, it will be important for OPM to continue to monitor the certification process, determine whether any obstacles are impeding agencies from receiving full certification, and take appropriate measures to address them. These actions will help ensure that agencies continue to make substantive progress toward modernized performance management systems, and that provisional certifications do not become the norm.

Once agencies have provisional or full certification, OPM monitors senior executive performance appraisal systems by measuring the distributions of agencies' performance ratings and pay. This information helps OPM

[9] An agency may have multiple performance management systems for senior employees—including SES and SL/ST members—and an agency must apply to OPM for certification of each system separately. In 2006, the National Aeronautics and Space Administration received separate certification for its Inspector General's Office and the Department of Defense received separate certification for its SL/ST systems.

[10] GAO, *Human Capital: Agencies Need Leadership and the Supporting Infrastructure to Take Advantage of New Flexibilities*, GAO-05-616T (Washington, D.C.: Apr. 21, 2005).

determine if agencies are making meaningful distinctions among the performance of their senior executives. Such distinctions are important because effective performance management requires the organization's leadership to make meaningful distinctions between acceptable and outstanding performance and appropriately reward those who perform at the highest level.

In its Report on Senior Executive Pay for Performance for Fiscal Year 2005, OPM stated that the data indicate that federal agencies are taking seriously the requirement to develop rigorous appraisal systems and to make meaningful distinctions in performance ratings and pay. All reporting agencies have moved away from pass/fail appraisal systems and now have at least one performance level above "fully successful." In 2005, 43 percent of career SES governmentwide were rated at the highest performance level, compared to 75 percent in 2003 prior to the implementation of the SES pay-for-performance system. Further, OPM reported for fiscal year 2005 that the percentage of SES rated at the highest performance level declined 16 percent from the prior year. OPM also reported that the largest increases in salary went to SES rated at the highest performance level. Although SES pay and performance award amounts vary by agency based on factors such as compensation strategy, funding, and agency performance levels, OPM believes these general trends suggest a further refinement may be occurring in the process of distinguishing outstanding performers.

Concluding Remarks

As we have said in our prior reports and testimonies, senior executives need to lead the way in transforming their agencies' cultures to be more results oriented, customer focused, and collaborative in nature. Credible performance management systems, specifically those that (1) align individual, team, and unit performance to organizational results; (2) contain built-in safeguards; and (3) are effectively implemented, can help manage and direct this process.

The pay-for-performance system for the government's senior executives that I have discussed today is an important milestone on the march toward modern compensation systems that are more market based and performance oriented. Although OPM and agencies have encountered various challenges in implementing the system, such challenges are not surprising given the cultural shift that the new system represents. Moreover, just 2 years have passed since OPM issued its regulations for certifying agencies' pay-for-performance systems, and some growing pains are to be expected given agencies' lack of experience with performance

management systems that meet OPM's requirements. Moving forward, what will be important is how OPM works with agencies to provide the tools and resources they need to design and implement performance management systems that meet the certification criteria in as streamlined a fashion as possible.

The lessons learned in implementing the senior executive pay-for-performance system will be critical to modernizing the performance management systems under which other federal employees are compensated. In particular, establishing an explicit line of sight between individual, team, and unit performance and organizational success, as well highlighting opportunities to improve guidance, communications, transparency, and safeguards, will serve the government well moving forward. We stand ready to assist OPM and Congress in exploring and implementing these critical human capital reforms.

Chairman Voinovich, Senator Akaka, and Members of the Subcommittee, this completes my prepared statement. I would be pleased to respond to any questions that you may have.

Contact and Acknowledgments

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TESTIMONY

of

CAROL A. BONOSARO

President

SENIOR EXECUTIVES ASSOCIATION

Before the

SENATE HOMELAND SECURITY & GOVERNMENTAL AFFAIRS COMMITTEE,
SUBCOMMITTEE ON THE OVERSIGHT OF GOVERNMENT MANAGEMENT, THE
FEDERAL WORKFORCE AND THE DISTRICT OF COLUMBIA

September 26, 2006

Chairman Voinovich, Ranking Member Akaka, and Members of the Subcommittee:

I am Carol Bonosaro, President of the Senior Executives Association (SEA), a professional association that represents the interests of career federal executives in the Senior Executive Service (SES) and those in Senior Level (SL), Scientific and Professional (ST), and equivalent positions. SEA appreciates your invitation to testify before this committee regarding our recent survey on SES pay and performance management.

In its 1987 report, the Twentieth Century Fund Task Force on the Senior Executive Service observed, "The nation could not function effectively without SES executives." The importance of the SES was emphasized, too, by both National Commissions on the Public Service, in 1988, and again in 1993, when it observed, "No organization in this country is more dependent on qualified senior leadership than the federal government." Many other reports and studies have also pointed to both the importance and the quality of the career Senior Executive corps.

Given this, it is in the public interest to attract and retain the best corps of Senior Executives possible and to compensate them and manage their performance in as fair and effective a manner as possible.

As you know, prior to adoption of the new SES pay and performance management system, pay compression was severe in the SES corps. Therefore, the Association has had a clear interest in seeing this new system, with its higher pay caps, be successful, and our efforts have been directed to ensuring that the system would be fair and effective and seen as such by the executives subjected to it.

Over the past two years, the Association received complaints regarding the system's implementation. In several cases, we urged OPM to take corrective action, and in one case, we urged a department to do so. When concerns about the new pay system persisted, we decided to conduct a survey to obtain information from the executives themselves regarding their experience with and views of the new system. Through our partnership with Avue Technologies, we were able to survey 850 respondents (approximately 12 % of the career corps). The respondents' characteristics closely mirror those of the Senior Executives corps. Especially important is the fact that the salaries of those surveyed almost perfectly mirror those of the entire group of career Senior Executives. Therefore, one cannot argue persuasively that the respondents hold negative views because they have not fared as well as others in the new system. The end result is a survey that sought objective information, as well as opinion, and showed substantial evidence of problems in the implementation of the new system. To put it another way, although the provisions of both the statute and the regulations – with a few clear exceptions – made sense, something has been "lost in translation" as the system has been implemented.

The view of many survey respondents is that agencies' implementation of the pay system has often resulted in a disconnect between ratings and pay adjustments, imposed systems of arbitrary quotas and failed to be transparent. From all accounts, it appears the system could and must be improved.

While over 96 percent of respondents believe they should be held accountable for performance, 86 percent said the new system had no effect on their performance, and 56 percent said it had no effect on their motivation. Meanwhile, 40 percent saw the system as having a negative effect on morale.

The results of the survey clearly show three major issues that must be addressed: 1) Many Senior Executives believe that de facto quotas are being enforced that are affecting final performance ratings; 2) Senior Executives see no clear, consistent correlation between ratings and pay adjustments or how bonuses are distributed; and 3) Senior Executives doing a good job at the fully successful or higher level often receive no salary adjustment.

Simply put, the Senior Executive Service pay for performance system needs attention. SEA does not believe it is beyond repair. I ask that SEA's survey report and proposed corrective legislation, along with a narrative explaining this legislation, be included in the record of this hearing.

The legislative remedies we propose are common sense solutions. For example, a Senior Executive who receives a rating of fully successful or higher should receive a salary increase sufficient to keep pace with the rest of the civil service. However, 15 percent of respondents with the highest possible ratings at their agencies for 2005 received no increase in salary in 2006.

We also believe that the SES pay system should be reformed to recognize the reality that performance awards are a part of SES pay. These awards should count toward retirement, and our legislative proposal suggests a way to do this.

Another remedy we propose would require that an agency inform an executive of his or her final rating and the reasons for it within a reasonable period of time, namely, 60 days. Seventeen percent of respondents reported not having their rating discussed with them at all last year, while 37 percent received only a cursory discussion.

Our legislative proposals are necessary to correct perhaps the most disturbing findings, which are: (1) with 31 percent of SES currently eligible for retirement, and 90 percent to be eligible over the next ten years, 16 percent of respondents indicated they are accelerating their plans to separate from the government due to the pay system; and (2) 47 percent indicated the new system has had a negative effect on interest in the SES by GS-14s and GS-15s.

Apart from the legislation we recommend, we believe that OPM and the agencies themselves must take steps to examine their practices and correct the problems identified in this report.

This is not an issue of pay. It is an issue of providing a SES system that is guided by the public interest. The successful mission accomplishment of the federal government depends on the expertise and skills of current and future highly qualified and experienced career Senior Executives.

I close with a comment from one of the survey respondents—and I hope you read as many of the 158 comments we provided in the report as you can, because they provide very graphic illustrations of the survey data. A Senior Executive from Justice wrote:

> Most all SESers I knew were highly motivated people who did not need the alleged incentives of the new-style PWP [pay with performance] to work hard. Few if any appreciated being in "competition" with their peers for positioning in the pay and bonus rankings. Those of us who got Outstanding got pay increases that were slightly less than the GS … cost-of-living adjustment. I'd planned to retire 09/05 and the new system made it exquisitely easy to carry thru with that plan. I count being free of such make-work nonsense as one of the most enjoyable parts of being out of a career that I loved otherwise.

Members of the Committee, I thank you for your time and look forward to working with you on the solutions necessary to ensure the Senior Executive pay and performance management system operates fairly and effectively.

Senator Daniel K. Akaka
Subcommittee on Oversight of Government Management,
the Federal Workforce, and the District of Columbia
Senior Executives: Leading the Way in Federal Workforce Reforms
September 26, 2006

With respect to many of the concerns expressed about the way agencies have designed and implemented their performance management systems, it is important to bear in mind that in the Civil Service Reform Act of 1978, Congress established a decentralized approach to performance management for the Federal Government by requiring each agency to establish its own systems for its senior executives and its general workforce. In the early 1990s, findings and recommendations from the National Academy of Sciences endorsed this decentralization as appropriate for a set of organizations as complex and diverse as the Federal Government and its component agencies. The Office of Personnel Management's (OPM's) role is to set general requirements and provide guidelines and help agencies determine how best to apply flexible policies to their own missions and requirements.

Questions for Director Linda Springer, Office of Personnel Management (OPM)

1. Currently only the Department of Labor has a fully certified pay for performance system for the Senior Executive Service (SES). Conversely, every other agency participating in the program has provisional certification, indicating that the agency has not met a majority of the certification criteria.

   A. Can you please explain the process of certifying agencies to implement a pay for performance system for the SES?

   Under the regulations, The Office of Personnel Management (OPM) certifies the performance appraisal system but not the pay system. Certification is at the agency's option and not all agencies choose to seek it. Agencies requesting certification submit the following information to OPM:

   - A copy of the appraisal system description
   - Ten percent of their current SES performance plans (or 20 plans, whichever is greater)
   - Rating, pay, and awards data from the most recent appraisal period
   - The agency's strategic plan and annual performance plan(s)
   - Guidance to rating officials and Performance Review Boards regarding organizational assessment and how to consider organizational performance in ratings, pay, and awards decisions
   - A description of the oversight responsibilities for the system

OPM has several groups within its policy and human capital divisions review the submission. Agency systems must meet all certification criteria to be provisionally certified. In general, the primary difference between provisional and full certification is that full certification requires the agency to provide 2 years of rating, pay, and awards data showing it makes distinctions in and based on performance. In addition, I established an additional requirement for certification for calendar year 2007: an agency's performance plans must focus at least 60 percent on achieving results. Many agencies' systems do not yet meet this requirement, preventing them from receiving full certification. Also, beginning in 2007, we are asking agencies to provide information about how their system has been implemented, including a description of briefings, other communications, and training provided on the system to executives.

B. What is the average time it takes for OPM to grant certification to an agency?

In calendar year 2005, the average time from the date of the incoming request to the date of the signed certification letter was approximately 63 days. In calendar year 2006, the average was approximately 77 days. The reason for the higher average in calendar year 2006 is because a more in-depth review of performance plans was done in 2006; in 2005, only rating, pay, and awards data were reviewed because performance plans had just been reviewed at the end of 2004 and agencies had not yet had a chance to make improvements. The averages do not reflect OPM processing time alone. In nearly every case, agency requests were incomplete, or performance plans did not meet certification criteria, requiring a great deal of back and forth between OPM and the agency. After OPM completes the review and arrives at a recommendation, OMB is provided the opportunity to weigh in. Frequently, OMB raises issues that require additional coordination.

C. Please provide the number of individuals at OPM who are involved in the certification process and their positions.

Within the Human Capital Leadership and Merit System Accountability Division:

Associate Director
Deputy Associate Director for Human Resources
Manager, Excellence in Performance Management Implementation Group
4 Human Resources Specialists

Within the Strategic Human Resources Policy Division:

Associate Director
Deputy Associate Director for Performance Management and Pay Systems Design
Manager, Performance Management Group
1 Team Leader

4 Human Resources Specialists

Deputy Associate Director for Leadership and Executive Resources Policy
Manager, Executive Resources Group
Manager, Leadership Group
3 Human Resources Specialists

NOTE: Formal response letters to certification requests are signed by the Director of OPM.

D. What are the major factors that are keeping agencies from receiving full certification?

The main reasons are:

- Some agencies have designed new appraisal systems and do not yet have 2 years of rating, pay, and awards data under their new systems.

- OPM determined, and OMB concurred, some systems need to be thoroughly reviewed again in 2007 because portions of executive performance plans may have been weak in certain criteria. In these cases, the systems were granted provisional certification rather than full.

E. Of the major factors keeping agencies from receiving full certification, as identified in response to question (1)(D), what is OPM doing to help agencies address those issues and receive full certification?

OPM expects more agencies to meet full certification criteria in 2007 because:

- More agencies will likely have 2 years of rating, pay, and awards data showing the agencies make appropriate distinctions in and based on performance.

- All agencies are currently adjusting their derivation formulas for determining final ratings so that well over 50 percent of an executive's rating is based on results. OPM has reviewed this requirement in detail at the quarterly Executive Resources forums we hold. Also, OPM works individually with agencies to develop systems that appropriately cover results in performance plans.

- OPM has worked extensively one-on-one with agencies to help them improve the performance plans for individual executives. We have conducted training and workshops, met with executive staffs, and have provided extensive feedback -- plan by plan -- to agencies regarding their systems and performance plans. We are also in the process of placing sample performance requirements on our web site as an additional tool for agencies to use in

crafting their own. OPM has told agencies we expect to see them make the improvements that we identified in the previous year as being needed, and we have been working closely with agencies to ensure those improvements are made.

F. Is there any limit to the number of times an agency may receive provisional certification? Could an agency receive provisional certification indefinitely?

The regulations do not currently place a limit on how many times an agency could receive provisional certification. However, agencies must show improvements over the previous year's submission in order to be provisionally certified. As agencies improve their systems, they will progress to meet the full certification criteria.

2. I understand that OPM, with the concurrence of the Office of Management and Budget, may suspend certification if an agency's pay for performance system is not in compliance with the certification criteria. You responded at the hearing that OPM has not suspended an agency's certification to date. What would an agency have to do in order to have its certification suspended?

The fact that we are still in the relatively early stages of certification and nearly all certified appraisal systems have been provisionally certified (i.e., for 1 year) means that a situation has not yet arisen in which OPM has needed to consider suspending an agency's certification. Certification of an agency's appraisal system would be suspended if the agency no longer meets the certification criteria, and would be more likely to occur if the agency had been fully certified -- i.e., certified for 2 years rather than just 1. Specifically, an agency could have its certification suspended if it changes the design or application of its appraisal system to make improvements but drops something that is required to meet one of the criteria. Or, suspension might result from an unjustified distribution of ratings (not supported by organizational performance) or lack of sufficient differentiation in pay. Suspension could also result from submission of false or inaccurate performance rating or pay data.

3. In response to my question as to whether OPM has conducted any audits of agencies' SES pay for performance systems to ensure that the programs are consistent with the merit system principles, you said that the OPM certification process is like an audit. Please describe the similarities and differences between the SES pay for performance certification process and the audit process (including the number of staff involved and their positions, items reviewed, length of review, etc).

Under OPM's Human Resources Operations Audit process, the Senior Executive Service is included in our overall coverage of performance culture at the site and agency level. For site visits, typically one audit team member is assigned to review performance management and awards. That person and any additional staff needed would review a sample of SES performance plans and ratings and awards information (e.g., policies,

procedures, and data). Questions on the administration of the SES system would also be included in interviews with executives and HR staff. The audit would address quality of plans and linkage to mission, distribution of ratings and awards, and overall administration. Site findings are provided to the lead auditor responsible for the agency audit. Any significant, systemic findings would be included in the agency audit final report.

As measured by hours expended, the system certification process is as intensive a review of the system against certification criteria as the audit. The staff involved are listed under 1C above, the review covers the items listed in 1A above, and the length of review is provided in 1B above. On request, agencies are provided feedback reports that list each performance plan reviewed and how well each plan met the criteria.

4. According to the survey conducted by the Senior Executives Association (SEA), 53 percent of respondents claim their agencies use quotas. It appears that agencies are confused about what constitutes making meaningful distinctions in performance.
   A. Please provide copies of directives used by OPM in guiding agencies on how to make meaningful distinctions in performance.
   B. Will OPM change its guidance in light of SEA's findings?

We have attached relevant OPM guidance on making performance distinctions. Forced distribution is prohibited by regulation, and we are using our certification guidance to remind agency officials that performance ratings must be based on individual and organizational performance relative to a pre-established standard.

As a consequence of taking steps to make more meaningful and realistic distinctions in performance ratings, agencies now rate fewer than half of their executives at the highest level as compared to nearly 80% a few years ago. We are very concerned about the apparent perception among some members of the SES that this shift has occurred as a result of using quotas, or forced distributions, to determine ratings. Even the perception of illegality can undermine the credibility and effectiveness of a performance management system, and we are also modifying our certification guidance to agencies to require them to document their efforts to inform their executives on the principles and operation of their system and its application in the SES pay-for-performance system. In particular, it is vital that executives understand the purpose and philosophy behind making more meaningful distinctions in performance ratings and pay, and the linkage between overall organizational performance and the overall distribution of ratings across the agency.

5. As you know, employee training is an essential element in any successful personnel reform.

   A. What training has OPM designed or provided to agencies on the SES pay for performance system? Do you know how many agencies use this training and how many employees have received the training?

OPM held Government-wide briefings introducing the pay-for-performance system to agencies, reviewing the regulations, and providing guidance materials to be used as the basis for training. OPM has also done the following:

- OPM has given numerous tailored briefings for agencies and their executives regarding the SES pay-for-performance system, including USDA, Commerce, DoD, Education, Energy, HHS, HUD, Justice, NSF, OMB, SSA, Transportation, and Treasury.
- OPM human capital officers work closely with agencies to ensure their systems meet certification criteria. This includes in-depth discussions and training of agency Executive Resources staffs.
- OPM's quarterly Executive Resources Forums include discussions about certification criteria and how best to address them and provide evidence they are met.
- Annually, OPM issues guidance materials for certification. Agencies have tailored the guidance and information to train their executives on the specifics of their own systems. In particular, OPM's 2007 system certification guidance, which is attached, includes as an attachment explanations and examples related to the certification criteria and a link to a slide presentation describing system basics, both of which can be used by agencies to educate and train their executives.

B. If agencies are providing their own training to their senior executives on pay for performance, does OPM review the training materials to ensure that the training materials are accurate and provide the necessary information?

Reviewing agency training programs was not originally established as a certification criteria and OPM has not required training information as part of the certification process in previous years. However, OPM's 2007 system certification guidance requires agencies to provide OPM a description of briefings, other communications, and training provided to senior employees, rating officials, Performance Review Boards, and human resources staff on the principles and operation of its performance appraisal system as well as on the system's results.

C. Are employees required to receive continuous training on the system?

Regulations at section 430.311 of title 5, Code of Federal Regulations, require that supervisors and senior executives receive appropriate information and training on the performance management system. No timeframes are specified but we encourage agencies to conduct ongoing training.

D. Do you know whether the SES training on pay for performance is similar to the training provided at the Departments of Defense and Homeland Security for implementing their pay for performance systems?

Each agency has the responsibility of training its executives on its pay-for-performance system. OPM had not previously required agencies to report the training provided to executives regarding the pay-for-performance system, but we have added that for 2007 certification. See the answer to Question 14.

E. What training, if any, is required for agencies to be certified?

Training is not currently one of the SES system certification criteria. See the answer to Question 14.

F. What training is provided to the SES on how to appraise, rate and provide associated pay and bonuses?

Each agency is responsible for training its executives on its performance management and pay systems and the skills they need to use them appropriately.

G. What are SES told to expect from their superiors regarding information on personal and agency-wide performance appraisals, ratings, bonuses and pay?

Most of OPM's communications are directly with CHCOs and agency human resources personnel. Agencies communicate with their executives about their appraisal systems. OPM regulations require that executives be consulted in developing their performance plans and executives may respond in writing to initial summary ratings. Regulations also require agencies provide appropriate information and training to supervisors and executives on performance management. It is the agencies' responsibility to ensure good communication occurs with executives about the appraisal system and pay-for-performance system.

6. You testified that OPM is seeing an increased linkage between the general level of executive ratings and overall organizational performance. Can you provide us with examples of agencies making this linkage?

- The Department of Health and Human Services (HHS) assesses the performance of each of its components and provides a narrative report to component heads on organizational performance and how that performance should be considered when determining ratings, pay, and awards. Guidance from HHS has instructed poor-performing components (that is, components that failed to meet some critical goals) to rate executives appropriately by requiring ratings above Fully Successful to be supported by additional justification.

- The Department of the Treasury also assesses the performance of each of its components and develops a component scorecard that incorporates the results of the Performance and Accountability Report, OMB's Program Assessment Rating Tool, and other organizational assessments. The rating distribution for a component should reflect the component's performance.

7. OPM has said in the past that the SES pay system can be used as a starting point if not a model for the rest of government. Do you believe SEA's survey results will impact the expansion of pay for performance to General Schedule employees?

   We continue to believe that SES performance pay provides a solid starting point for expanding pay for performance to the General Schedule. In fact, the SEA survey should prove useful in highlighting issues that need to be addressed as we design and implement future pay-for-performance systems in the Federal Government. We also intend to use this and other information to fine-tune the SES system itself, through guidance and the issuance of final regulations for the system.

8. According to the SEA survey results, many senior executives are accelerating their plans to retire or leave federal service due to the pay for performance system, which would be a devastating loss to the federal government. What plans does OPM have to retain federal senior executives?

   It is difficult to determine whether the implementation of pay for performance actually has had an effect on SES attrition. However, as is well known, there is an unusually large number of SES members who are eligible for retirement at present, and OPM has been working to create incentives to induce some of them to stay. Executives are eligible for retention bonuses, and those who do retire may under certain circumstances be offered a salary reduction offset waiver that allows them to receive their full annuity while receiving a full salary as a reemployed annuitant. OPM is also encouraging agencies through our Career Patterns initiative to establish non-traditional work arrangements such as part-time employment or telecommuting, which could be appropriate for SES members in certain cases. OPM continues to advocate legislation that would remove the negative effect on the annuity computation for employees who opt to cut back to part-time prior to retirement. Enactment of this legislation would provide an important incentive for retaining executives in some capacity.

9. The SEA survey found that 47 percent of the respondents believed the new system had a negative effect on the interest of GS-14/15 moving into the SES. Another 47 percent believed the new system had no effect, even though the pay for performance system was promoted as a change that will have a positive effect on SES recruitment and retention. In light of the survey results, what steps will OPM take to make the SES more attractive among senior federal managers?

   Despite the reported perceptions of some SES members, OPM has no firm evidence at this point to suggest that GS 14 or 15 employees are actually shying away from seeking

positions in the Senior Executive Service because of pay for performance. Typically, a large number of applications are received for SES vacancies, and it is likely that some of this interest may be attributed to the higher pay potential now available under the pay-for-performance system. Again, in response to the aging of the current SES population, OPM has been placing heavy emphasis through the President's Management Agenda on each agency putting a succession plan in place to identify and develop potential future members of the SES. Approximately 20 Federal agencies now have an OPM-certified SES Candidate Development Program, turning out a significant number of SES-ready graduates each year.

10. **Earlier this year, I understand that SEA brought to OPM's attention examples of agencies using quotas. What action did OPM take in response to SEA's information and what was the result of those actions?**

During the certification process, OPM ensures that agency policy and guidance prohibit the use of quotas or forced distributions. In all Executive Resources Forums held since 2004, OPM has reminded agencies that quotas for ratings are forbidden. The two examples of alleged quotas brought to OPM's attention by SEA were at the Departments of Defense and Agriculture. OPM's Associate Director for Human Capital Leadership and Merit System Accountability contacted the Chief Human Capital Officer for each agency to follow up on the allegation. In DOD's case, we found an official at Navy had used a misleading slide in a training presentation. In USDA's case, a supervisor made an inappropriate comment to a subordinate. In both cases, OPM found that quotas were not used, and we stressed with both agencies the need to ensure that their executives do not give even the appearance of using quotas. Corrective actions were taken in both situations to help resolve misperceptions of forced distribution. In OPM's 2007 certification guidance, we are again stressing to agencies the inappropriateness of using or implying quotas.

11. **The SEA survey shows a clear morale issue among the SES. Do you agree or disagree with this assessment? If yes, what steps will OPM take to address morale among the SES? If no, please discuss your view of morale among members of the SES.**

It has been our experience over the past 25 years with the implementation of pay-for-performance systems under personnel demonstration projects that there is always an initial level of employee discomfort with changes of this magnitude. This discomfort has generally abated as employees become more familiar with these systems and learn in many cases how they can benefit – as solid performers – from the new system. Experience has shown it typically takes about 3-5 years before employee attitudes toward the new system stabilize. As noted above, we are asking agencies to speed this acclimation process by redoubling their efforts to educate their executives on the workings of the system. Although overall performance ratings are lower, our data show that SES members have in general benefited through higher average base pay adjustments and an increased number of performance awards, with no decline in the average amount of these awards.

12. It is my understanding that there is no office at OPM, besides that of the Director, which is chiefly responsible for, or even a direct point of contact for, SES policy and programs. Given that the federal career executive corps is a distinct segment of the civil service and critical to agency leadership, do you believe that a central point of contact, such as a working group or an SES office, would be beneficial in dealing with the concerns discussed at this hearing?

OPM's Center for Leadership and Executive Resources is the central point of contact for all policy matters related to the SES. All operational programs related to the SES are the responsibility of the Center for Natural Resources and its Executive Resources Services Group. These OPM offices work together on a daily basis to address all concerns regarding the SES and each provides a point of contact for SES issues.

13. I believe that those who receive fully successful ratings or higher should not lose purchasing power from year to year. As such, I am particularly distressed that many highly rated Senior Executives are receiving no raise at all.

A. How much of a factor is agency budgetary constraints?

SES performance pay data from FY 05 show that about 8% of SES members received no salary increase, including only about 5% rated at the highest level. Although budgetary constraints may influence agency pay policies, the pay increases we observe in the agencies do not appear to indicate these constraints are the determining factor. Most agencies that restrict payments appear to do so only when the executive is about to retire immediately or is new to the organization and has not been there long enough to rate. We will work with the agency Chief Human Capital Officer community to further explore this issue, and will consider as we develop our final SES performance pay regulations the possibility of establishing some kind of performance pay pool requirement to ensure adequate funding.

B. Do you believe those who receive fully successful ratings should not lose purchasing power, and do you believe there should be, or needs to be, minimum requirements for rewarding those who get a good performance rating?

Provided the executive is appropriately situated within the pay range, we believe executives with fully successful ratings should not lose their position in the range. Those with ratings higher than fully successful should be advanced in the pay range based on their performance and contribution to the organization, and taking into account the policy stated at 5 CFR 534.403(a)(3) that "rates of basic pay higher than level III of the Executive Schedule generally are reserved for those senior executives who have demonstrated the highest levels of performance and/or made the greatest contributions to the agency's performance." Conversely, those who are rated less than fully successful or those who are not properly positioned

in the pay range should be allowed to lose position in the pay range. As we develop our final regulations, we will examine closely how these policies have worked in practice, with an eye to making necessary adjustments if appropriate.

14. In light of many of the SEA survey comments regarding transparency and the survey results demonstrating a lack of adequate communication, it appears agencies either need better guidelines, better oversight, or both. What would OPM propose to do in this respect?

OPM has already taken steps to improve the transparency of the SES pay-for-performance system by requiring agencies to report on training activities to receive system certification in 2007. As noted above, OPM is also providing a basic slide presentation on the system and examples of performance requirements that agencies can use as a basis for building their own system-specific training. OPM is also considering conducting SES-focused agency reviews as part of its compliance program.

15. The SEA survey showed a significant negative effect resulting from the loss of SES ranks when the pay system was enacted. Does OPM have a current position, or a plan to study, whether some form of rank system should be reinstituted in the SES?

Ranks were eliminated in order to open the pay range to more fully reflect the results of individual performance and allow flexibility for recruiting and retaining senior executives. However, some agencies have taken advantage of the flexibility offered under the current regulations to rank jobs and place them (and the executives currently holding them) at one of several pay levels or tiers based on their level and complexity. Again, we will examine this practice as we prepare final regulations to determine its impact and whether it should be expanded.

United States Government Accountability Office
Washington, DC 20548

November 14, 2006

The Honorable George V. Voinovich
Chairman
The Honorable Daniel K. Akaka
Ranking Member
Subcommittee on Oversight of Government Management,
the Federal Workforce, and the District of Columbia
Committee on Homeland Security and Governmental Affairs
United States Senate

Subject: *Posthearing Questions Related to Senior Executive Performance-Based Pay System Implementation*

Dear Chairman Voinovich and Senator Akaka:

On September 26, 2006, I testified before your subcommittee at a hearing entitled "Senior Executives: Leading the Way in Federal Workforce Reforms."[1] This letter responds to your request that I provide answers to follow-up questions from the hearing raised by Senator Daniel K. Akaka. The questions, along with my responses, follow.

1. You testified that agencies found guidance provided by the Office of Personnel Management (OPM) on designing and implementing a pay for performance system to be lacking. Have agencies sought OPM's guidance on how to make meaningful distinctions in performance without resorting to quotas, and if so, did they find OPM's guidance helpful?

Although we did not specifically discuss quotas with the executive branch agency officials we interviewed, we are aware that agencies are concerned in general with OPM's guidance on designing and implementing their senior executive pay systems.[2] We interviewed Chief Human Capital Officers (CHCO), human resource (HR) directors, and their staffs regarding their views of OPM's certification process for the senior executive performance-based pay system. These agency officials expressed concerns about OPM's ability to communicate expectations, guidance, and deadlines

[1]GAO, *Human Capital: Aligning Senior Executives' Performance with Organizational Results Is an Important Step Toward Governmentwide Transformation*, GAO-06-1125T (Washington, D.C.: Sept. 26, 2006).
[2]GAO, *Office of Personnel Management: OPM Is Taking Steps to Strengthen Its Internal Capacity for Leading Human Capital Reform*, GAO-06-861T (Washington, D.C.: June 27, 2006).

to agencies in a clear and consistent manner. For example, some CHCOs and HR directors told us that OPM sometimes changed expectations and requirements midstream with little notice or explanation.
We are not aware of any OPM guidance, aside from the OPM regulations, specific to making meaningful distinctions among performers without resorting to quotas. OPM's regulations state that an agency's performance assessment and evaluation guidelines may not be in the form of quantitative limitations on the number of ratings at any given rating level.[3] However, in our May 2004 comments on OPM's draft regulations for the senior executive performance-based pay system, we suggested that agencies may need some additional guidance from OPM in what constitutes meaningful distinctions in performance.

As I testified before the subcommittee in September, only one senior executive performance-based pay system was fully certified by OPM during calendar year 2006. All other certifications were 1-year provisional, meaning that agencies were able to demonstrate that their system in design meets four of nine certification criteria. As of November 1, 2006, there was still only one agency fully certified and 30 agencies had received only provisional certification. Because of the large number of agencies receiving provisional certification, it appears that as we approach the fourth year of implementing the new executive pay system, many agencies are making progress in designing their performance-based pay systems. However, full certification requires an agency to meet criteria that focus not only on design, but also on the implementation of its senior executive pay system, and thus implementation appears to be the area where agencies need help.

In our forthcoming report to the subcommittee, to be issued by the end of this month, we identify lessons that can be learned from OPM's efforts to lead and implement the senior executive performance-based pay system and that can be applied to future human capital reforms. Although we will not specifically address OPM guidance on making meaningful distinctions in performance, we will elaborate further on agencies' broader concerns regarding clear and timely guidance and the need for OPM to solicit and incorporate agency feedback.

2. You testified that agencies found the certification process for the pay for performance system to be time intensive and burdensome. Do you have any recommendations for improving the certification process while ensuring that OPM has the proper information for agencies to meet what GAO calls the "show me" test?

We have reported that an agency should be authorized to implement a reform only after it has shown it has met certain conditions, including an assessment of its related institutional infrastructure.[4] This institutional infrastructure should include (1) a strategic human capital planning process linked to the agency's overall strategic plan; (2) capabilities to design and implement a new human capital system effectively; (3) a

[3] 5 C.F.R. § 430.404(a)(5).
[4] GAO, *Human Capital: Preliminary Observations on the Administration's Draft Proposed "Working for America Act,"* GAO-06-142T (Washington, D.C.: Oct. 5, 2005).

modern, effective, credible, and validated performance management system that provides a clear linkage between institutional, unit, and individual performance-oriented outcomes, and results in meaningful distinctions in ratings; and (4) adequate internal and external safeguards to ensure the fair, effective, and nondiscriminatory implementation of the system.

Going forward, it will be important for OPM to continue to monitor the certification process, determine whether any obstacles are impeding agencies from receiving full certification, and take appropriate measures to address them. Currently, 30 agencies are provisionally certified, meaning that they must repeat the application process annually until OPM fully certifies their systems. Helping agencies move to full certification is important with respect to the time-intensive nature of the process, because a fully-certified performance-based system needs to be recertified every 2 years.

In addition, delays in issuing guidance and late revisions exacerbate the time crunch agencies face when applying for certification. For those executive branch agencies with performance cycles ending on September 30, they have 90 days until their current certification expires if they are provisionally certified or in their final year of full certification. Within this time frame, agencies must conduct performance reviews and develop and compile volumes of information for their certification applications. Therefore, it is important that agencies receive timely guidance and notice of any changes in requirements in order to avoid a delay in submitting their applications, and possibly, a gap in certification.

Also in our forthcoming report to be issued this month, we make a number of recommendations to OPM to assist executive branch agencies in meeting the requirements for certification of their senior executive performance-based pay systems.

3. GAO has been a leader in human capital reform and recently implemented a pay for performance system for its employees. However, the results of the Senior Executives Association (SEA) survey clearly demonstrate the problems that can arise with implementing such a system. Has GAO experienced the same problems identified in the SEA report, and if so, what steps were taken to address those problems?

As we have noted through our prior work, it is difficult to garner a broad-based consensus of employee support for any major pay system changes, even under the best of circumstances. Although I cannot address the specifics of the problems identified by the SEA survey results since we have not examined the SEA report, I can describe some of the steps that GAO has recommended and followed in implementing its own human capital reforms.

As you know, the GAO Personnel Act of 1980[5] provided the GAO with greater flexibility in hiring and managing its workforce.[6] The most prominent change that we

[5]Pub. L. No. 96-191 (Feb. 15, 1980).

later made under this authority was to implement a broadbanded pay-for-performance system. More recently, in January 2002, we implemented a new competency-based performance management system intended to create a clearer linkage between employee performance and organizational goals as described in our agency strategic plan. It should be noted that we had over a decade of experience in pay banding before we undertook our recent changes, therefore much of the needed organizational infrastructure was already in place.

Our own experience with implementing human capital reforms has shown that it is necessary to make the case for change from the leadership level, have consistent communication, and involve all employees throughout the process. As the Comptroller General has stated, this involvement needs to be meaningful, rather than pro forma. At GAO, to obtain direct feedback from employees, we created the elected Employee Advisory Council (EAC) to serve as an advisory body to the Comptroller General and other senior executives on a range of management and employee issues. Comprised of employees who represent a cross-section of the agency, the EAC's participation is an important source of front-end input and feedback on our human capital and other major management initiatives. Our employees also participate in our human capital reform efforts through informal focus groups, task teams, town hall meetings, and annual surveys. Proposed regulations are issued for employee comment before final decisions are made. In this regard, all constructive employee comments are considered and acted upon, as appropriate.

We have reported that the involvement of employees both directly and indirectly is critical to the success of such new initiatives as a pay-for-performance system.[7] Performance management systems are more effective when employees perceive the process to be fair and the criteria to be clearly defined, transparent, and consistently applied.[8] Leading organizations have found that employee confidence and belief in the fairness of incentive programs improves when employees, unions, or other employee associations are actively involved during the development of the program. Specific agency actions to involve employees and other stakeholders could include

- consult a wide range of stakeholders early in the process;
- obtain feedback directly from employees in order to
  - encourage a direct sense of involvement and buy-in,
  - allow employees to express their views, and
  - help validate the system to ensure that performance measures are appropriate; and
- engage employees or their representatives in order to
  - achieve consensus on planned changes,
  - avoid misunderstandings, and
  - assist in the expeditious resolution of problems.

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[6]GAO, *GAO: The Human Capital Strategic Plan Fiscal Years 2004–2006*, GAO-04-1063SP (Washington, D.C.: Sept. 1, 2004).
[7]GAO, *Results-Oriented Cultures: Insights for U.S. Agencies from Other Countries' Performance Management Initiatives*, GAO-02-862 (Washington, D.C.: Aug. 2, 2002); GAO, *Human Capital: Practices That Empowered and Involved Employees*, GAO-01-1070 (Washington, D.C.: Sept. 14, 2001).
[8]GAO, *Posthearing Questions Related to Strategic Human Capital Management*, GAO-03-779R (Washington, D.C.: May 22, 2003).

We have also reported that a performance management system should have adequate safeguards to ensure fairness and guard against abuse.[9] Based on our own experience at GAO as well as our body of work looking at the performance management practices used by leading public and private sector organizations, we have identified a number of safeguards intended to help ensure the federal government's pay-for-performance systems are fair, effective, and credible.[10] For example, a system should include reasonable transparency and appropriate accountability mechanisms in connection with the results of the performance management process.[11]

4. As you know, training is a major component of implementing the pay for performance systems at the Departments of Defense and Homeland Security. How do you rate the training provided to members of the Senior Executive Service (SES) on its pay for performance system?

Although OPM has provided briefings to executive resource directors on the administration of the new performance-based pay system, we are not aware of any training provided directly to the SES on the new pay system. Moreover, we have not specifically evaluated the performance management training provided to SES members at either the Department of Defense (DOD) or the Department of Homeland Security (DHS). However, we have reported on how DHS is addressing or planning to address departmentwide training and the related challenges it has encountered.[12]

We have examined a range of DHS's departmentwide and component training, including the department's efforts to use training related to MAX^{HR} to foster transformation and cultural change.[13] DHS correctly recognized that a substantial investment in training is a key aspect of effectively implementing MAX^{HR}, and in particular, the new performance management system it established. In August 2005, DHS sponsored a 2-½ day training program for 350 to 400 of its senior leaders. The program covered a range of topics, including an update on current DHS priorities; techniques and best practices for how senior leaders can effectively support and implement these priorities; as well as specific management, communication, and training approaches that can be used to support the creation of a performance-based culture. The Secretary, Deputy Secretary, and Under Secretary for Management all participated in the program, which also featured presentations from human capital and organizational change experts from outside the department.

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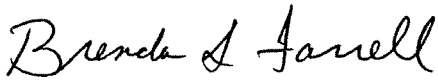
[9]GAO, *Human Capital: Implementing Pay for Performance at Selected Personnel Demonstration Projects*, GAO-04-83 (Washington, D.C.: Jan. 23, 2004).
[10]GAO, *Post-Hearing Questions for the Record Related to the Department of Defense's National Security Personnel System (NSPS)*, GAO-06-582R (Washington, D.C.: Mar. 24, 2006).
[11]Examples of transparency and accountability mechanisms include reporting on internal assessments and employee survey results relating to the performance management system and publishing overall results of performance management and pay decisions while protecting individual confidentiality.
[12]GAO, *Department of Homeland Security: Strategic Management of Training Important for Successful Transformation*, GAO-05-888 (Washington, D.C.: Sept. 23, 2005); GAO, *Human Capital: Observations on Final Regulations for DOD's National Security Personnel System*, GAO-06-227T (Washington, D.C.: Nov. 17, 2005).
[13]MAX^{HR}, DHS's human capital management system, covers key human capital areas including pay, performance management, classification, labor relations, adverse actions, and employee appeals.

We have also reviewed DOD and OPM's joint release of both the preliminary and final regulations on DOD's new human resources management system, known as the National Security Personnel System (NSPS).[14] Although DOD SES members are eligible for coverage under NSPS provisions, DOD has no current plans to cover SES members in its initial implementation spirals.[15] DOD has applied for and received provisional certification of both its SES and its senior-level (SL) and scientific or professional (ST) performance-based pay systems for calendar year 2006. DOD may determine at a later date whether coverage under NSPS pay and performance provisions is necessary.[16] In our November 2005 testimony on the final NSPS regulations, we identified training and adequate resources for training as two of several key criteria and processes for a governmentwide human capital reform framework. At that time, DOD had not defined the details of how it would implement NSPS, nor had it included training plans or other implementation particulars in its final regulations.[17] More recently, DOD has released a number of NSPS implementing issuances and has posted a Web page on NSPS training available to its employees, managers, and senior leaders. Although we have not reviewed the content of these issuances, DOD's move to provide training on NSPS implementation is consistent with GAO's overall position on human capital reform.

Thank you for the opportunity to respond to your questions following the September 26, 2006, hearing on the senior executives' pay-for-performance system implementation. Please contact me at (202) 512-6806, if you, other subcommittee members, or your staff have additional questions, or if we can provide additional help on these issues.

Sincerely yours,



Brenda S. Farrell
Acting Director
Strategic Issues

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[14]GAO-06-227T.
[15]70 Fed. Reg. 66116, 66131 (Nov. 1, 2005).
[16]70 Fed. Reg. 66116, 66131 (Nov. 1, 2005).
[17]GAO, *Human Capital: Preliminary Observations on Proposed Regulations for DOD's National Security Personnel System.* GAO-05-559T (Washington, D.C.: Apr. 14, 2005).

Senator Daniel K. Akaka
Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia
Senior Executives: Leading the Way in Federal Workforce Reforms
September 26, 2006

Questions for Ms. Carol Bonosaro, President, Senior Executives Association (SEA)

1. **As you know, training is a major component of implementing the pay for performance systems at the Departments of Defense and Homeland Security. How do you rate the training provided to members of the Senior Executive Service (SES) on its pay for performance system?**

There currently is no formal training of which I am aware for members of the Senior Executive Service regarding their pay and performance management system. I believe that most Senior Executives – whether they are simply executives subject to the new system or are part of implementing it in their roles as member of Performance Review Boards - simply have figured it out as they went along, with as much – or as little – material as they may have been provided by their agencies. SEA would encourage OPM and agencies to provide formal and systematic training on performance evaluation and pay decisions, similar to what has been proposed by Senators Akaka and Voinovich for all managers and supervisors in S 3584 and S 3492, respectively.

I wish to note, however, that OPM Director Springer – in her recent instructions to agencies for submitting calendar year 2007 certification requests – has asked agencies to submit a narrative statement describing the relevant briefings, other communications and training provided to their senior employees, rating officials, Performance Review Boards, and human resources staff both in preparation for and after the annual performance cycle. This, together with Director Springer's statement that "all agencies must ensure that their senior employees understand both the philosophy and mechanics of their performance and pay systems," is an important step in addressing SEA's concern regarding communication and training.

2. **One of the concerns with implementing a pay for performance system is that it can lead to politicization of the civil service. Have you seen any evidence of politicization in the SES as a result of the pay for performance system?**

While the SEA survey had no questions designed to gauge the Senior Executives' perception of increased politicization due to the new performance management system, we did receive 28 comments from respondents on the topic of political appointees within the context of a performance management system. Most of these comments displayed varying levels of concern that political influence and loyalties played a role in everything from the assignment of ratings to the awarding of raises and bonuses to the degree to which performance standards were quantifiable. Some of these comments noted that the survey did not ask any questions on this

particularly important issue.

Reflected in the comments is what must be logically assumed as a concern: a system that has no safeguards is clearly open to distortion. It is the duty of the career SES to carry out policy actions to the letter of the law. Under the previous performance system, career SES were relatively insulated from political actions. The political appointee who supervises the career SES now has the ability to both provide and deny pay increases to a much greater degree than under the previous system, and the potential for political abuse exists. This is further reinforced by the lack of correlation between performance ratings and pay identified by the survey.

While we have heard anecdotes and conjecture of politicization, we lack evidence and explicit scenarios. We do believe that the lack of consistency, training, and accountability in the current system leave a void which could potentially be filled with the politicization and intimidation of the career SES. If nothing else, it has left the impression of politicization with some career SES.

3. The draft legislation by the SEA to improve the SES pay for performance system calls for certification periods of five years instead of the current two year period. Would the SEA proposal also provide for provisional certification and, if so, under what circumstances would provisional certification be awarded?

The current statute does not provide for provisional certification. Provisional certification is provided for under regulation. In Title 5, Section 5307 (d), agencies "certified ... as having a performance appraisal system" are provided with the ability to earn above the previous cap. In that statute, it is specified that "the Office of Personnel Management and the Office of Management and Budget jointly shall promulgate such regulations as may be necessary to carry out this subsection, including the criteria and procedures in accordance with which any determinations under this subsection shall be made." Under this authority, the regulations provided for provisional certification.

While SEA does not have a problem with provisional certifications as a concept, we believe that the rules for both provisional certification and full certification should and must be well defined by the Office of Personnel Management. As the Office may, by law, rescind certification at any time "upon a finding that the actions of such agency have not remained in conformance" under 5 U.S.C. 5307(d)(3)(B), we feel provisional certification may not even be necessary and can quickly be phased out if appropriate collaboration between the Office of Personnel Management and the agencies is achieved early on in the process.

To this end, we have expressed hope that OPM would provide a series of indicators and benchmarks that agencies can follow to assure that their performance management systems are in line with the best practices the Office expects from agencies. The Memorandum for Heads of Executive Departments and Agencies issued by OPM Director Springer on October 31, 2006, has significantly moved in that direction. As provided for in our draft legislation that accompanied our testimony, we believe the Office should be required to work with agencies on these indicators and benchmarks for six months before rescinding their certification or prior to renewal. Such a system will make all parties more accountable and make the system more transparent and

understandable to those affected by it.

4. The SEA report, Lost in Translation, calls for the Office of Personnel Management (OPM) to re-create the central focus it once had for addressing issues related to the SES and to devote resources to provide oversight of the SES pay for performance system. In your opinion, what specifically should OPM do to improve oversight of the SES?

Currently, there is no person or section at the Office of Personnel Management with definitive responsibility for the Senior Executive Service and the policies and programs relating to it. We believe OPM should return to its former practice and provide a singular section at the Office of Personnel Management linking oversight with policy-making and implementation. This would be a tremendous asset to the strength and cohesiveness of the civil service's elite leadership team.

According to the Office of Personnel Management's website, the Center for Leadership and Executive Resource Policy is responsible for the SES programs and procedures. However, SES policy decisions are provided for under a different section of the organization which is wholly distinct from those who provide implementation. SEA believes this creates a disconnect between policy and implementation, which insulates both sides from greater understanding that comes through interplay of initial intent and practicality. This also creates a situation in which stakeholders such as SEA do not know which section to approach when they have questions or concerns.

Further, such an office could address not only the Senior Executive Service, but all the equivalent services which have multiplied over the years (such as Senior Level positions, the FAA SES, the Senior Intelligence Service and Senior Professional and Technical positions) and which, together, constitute the government's executive cadre. This would enable the office to address many issues which these systems have in common.

5. What is your opinion of the effectiveness of the certification process used by OPM for the SES pay for performance system? Do you have any recommendations to strengthen or improve the process to ensure that agencies are equipped to properly implement the system?

While the Office of Personnel Management has a process for certification and has spelled out required materials to be submitted, we are unclear with regard to how the information requested has been, and will be, judged in reaching a decision regarding certification. Members candidly describe to us having received no concrete benchmarks or specific guidelines for a certified performance management system (although OPM has now provided several model performance standards for SES positions). This has led to great uncertainty when creating a system. In fact, many small agencies have not even applied. As the General Accounting Office stated in its testimony, agencies have been confused about what the Office would like to see in a certified system. Couple this with the memoranda issued by the Office of Personnel Management touting the decreases in Outstanding and other high ratings among the SES as success, this has created a message to agencies that suppressing high ratings is the path to certification. This, in turn, has led to the perception of quotas, if not quotas themselves. To the extent that Director Springer's Memo of October 31, 2006 has addressed these concerns, we applaud her action, and look forward to continuing to work with OPM and Congress to make the system fairer and more effective.

P.O. Box 44808 • Washington D.C. 20026 • (202) 927-7000 • Fax (202) 927-5192 • www.seniorexecs.org

November 17, 2006

The Honorable George V. Voinovich
Chairman
Subcommittee on Oversight of Government
Management, the Federal Workforce and the District of Columbia
442 Hart Senate Office Building
Washington, DC 20510

Re: Chief Management Officers at DOD & DHS

Dear Mr. Chairman:

We are writing in response to your request that the Senior Executives Association offer our comments on S 780 and S 1712, bills which would create, respectively, a Deputy Secretary for Management at the Department of Defense and another at the Department of Homeland Security. These new positions—also called Chief Management Officers—would be term appointments given only to a nominee with a proven track record in management.

SEA supports your efforts to create high level leadership positions that can provide managerial and administrative leadership that survives from one administration to the next. We applaud your effort to provide strong managerial direction, particularly important at these two sprawling agencies, and we believe the concept could apply government-wide. We do have some concerns about several parts of the two bills.

One concern is the provision that places this proposed presidential appointment immediately below the Secretary in the departments' hierarchies. This may result in a politicized position despite the language in the bills that would also make the Deputy Secretary for Management a term appointment. While SEA would like to see an effective and enduring management chief in a critical place in a department's structure, we believe that position must be insulated from politics to provide the best chance of continuous, sound management decisions. To achieve this, SEA proposes that such a position be filled by a career Senior Executive or equivalent, at a lower, but still effective place in the agency. We point to the role performed by Assistant Secretaries of Administration prior to the early 1990s. At that earlier time career Senior Executives effectively provided administrative and managerial leadership that survived changes in administrations. The government's previous experience with these career Senior Executives in such positions showed the value of a strong, objective voice for management coupled with a store of institutional knowledge.

Honorable George V. Voinovich
November 17, 2006
Page 2 of 2

SEA also has concerns regarding provisions in the bills that allow a Deputy Secretary for Management to be terminated for failing to meet a performance contract. We believe the ability for the respective Secretaries to dismiss the appointee by claiming a failure to meet performance contract requirements, coupled with the status of these CMO's as "second in command," creates the strong possibility of a new Secretary in a new administration not honoring the performance expectations of the predecessor. Evaluations of performance expectations—particularly at this high level—are very subjective. Thus, we see the probability that the bills' expectation that the CMO would provide continuous leadership might never be realized in the real world of changes in direction that accompany changes in administration.

SEA thanks you both for your work to aid federal employees and hopes to work with your offices on passing legislation that furthers the efficiency and effectiveness of government.

Sincerely,

Carol A. Bonosaro

CAROL A. BONOSARO
President

William L. Bransford

WILLIAM L. BRANSFORD
General Counsel

Cc: The Honorable Daniel Akaka, Ranking Member, Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia

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