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About 200,000 employees of the Veterans Administration and Departments of Defense and Transportation are paid from nonappropriated funds. They conduct programs to improve the morale, welfare, and recreation opportunities of present and former military personnel. Nonappropriated fund employees are not paid by funds which have gone through the congressional appropriation process but are paid directly from the receipts of activities such as military post exchanges and recreation clubs. Findings/Conclusions: Legally, these employees are treated inconsistently. While some are Federal employees in all respects, most are not covered by civil service laws. Some have civil service tenure, protection, and fringe benefits while others do not. Each agency has promulgated policies and procedures for its nonappropriated fund employees resulting in different pay and benefits among its activities and between such employees and other Federal workers. It has been argued that nonappropriated fund employees should be accorded the same pay and benefits as their civil service counterparts. The Coast Guard and Defense oppose civil service methods because they believe higher costs would threaten the financial stability of nonappropriated fund activities which support themselves through revenues they produce. Pay differences between nonappropriated fund employees and other employees are due to certain constraints upon the several pay systems involved which preclude comparability with counterpart private industry pay. Recommendations: For the civil service pay systems, Congress should consider previous GAO recommendations on improving the methods for setting blue-collar and white-collar pay. The Secretary of Defense should revise the Administrative Support

and Patrol Services pay systems so that the pay ranges more closely approximate those in the private sector. The Chairman of the Civil Service Commission should: reevaluate nonappropriated wage and survey areas to establish boundaries covering the natural labor markets in which there is competition for employees; reevaluate application areas so that appropriate pay rates are applied to areas not surveyed; include all industry classes within a prescribed industry in the survey universe unless it can be clearly established that excluded establishments will not provide adequate job matches; and require that predominant nonappropriated jobs in each wage area be identified and surveyed. (Author/SW)

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REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES



Methods Of Setting Pay For Nonappropriated Fund Employees Should Be Improved

About 200,000 employees of the Veterans Administration and Departments of Defense and Transportation are paid from non-appropriated funds.

Employee pay and benefits differ among nonappropriated fund activities and between such employees and other Federal employees. There are many causes for these differences.

This report contains several recommendations which would improve the methods of setting pay for nonappropriated fund employees.



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548


B-164515

To the President of the Senate and the
Speaker of the House of Representatives

Several different employee pay and benefit systems are used by nonappropriated fund activities in the Federal Government. This report describes differences and similarities among these systems and compares them with appropriated fund pay and benefits. We are recommending that several improvements be made to the nonappropriated fund pay systems.

We made this review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Chairman, Civil Service Commission; the Administrator of Veterans Affairs; and the Secretaries of Transportation, Defense, and military departments.


Comptroller General
of the United States

D I G E S T

About 200,000 employees, both blue and white collar, who work for the Departments of Defense and Transportation and the Veterans Administration are paid from non-appropriated funds. They conduct programs to improve the morale, welfare, and recreation opportunities of present and former military personnel.

Nonappropriated fund employees is the term used to describe Government workers who are not paid by funds which have gone through the congressional appropriation process, but directly from the receipts of activities such as military post exchanges and recreation clubs.

These employees are involved in sales; recreation; office work; warehousing; transportation; automotive repair and service; and food, janitorial, porter, or maid services.

Legally, these employees are treated inconsistently. While some are Federal employees in all respects, most are not covered by civil service laws. Some have civil service tenure, protection, and fringe benefits while others do not. Each agency has promulgated policies and procedures for its nonappropriated fund employees resulting in different pay and benefits among its activities and between such employees and other Federal workers.

Nonappropriated fund and other Federal pay differ in part because they are based on comparability with pay of different segments of the private sector. Retail, wholesale, service, and recreational industries are used to determine nonappropriated fund pay. Manufacturing, transportation and communication industries, wholesale trades, and public

utilities are used to determine the pay of other Federal employees.

It has been argued that nonappropriated fund employees should be accorded the same pay and benefits as their civil service counterparts. The Coast Guard and Defense oppose civil service methods because they believe higher costs would threaten the financial stability of nonappropriated fund activities. These activities largely support themselves through revenues they produce just as commercial retail stores, restaurants, and recreational activities do in the private sector. Each nonappropriated fund activity is, in essence, a separate business enterprise and financial entity.

If nonappropriated fund labor costs increased disproportionately above costs in similar activities in the private sector, who should bear the added costs to subsidize the higher compensation--users or the Government? Applying civil service methods to nonappropriated fund activities would also raise other questions, such as the continued employment of off-duty military personnel and accounting and financing of retirement credits.

Pay differences between nonappropriated fund employees and other employees are due to certain constraints upon the several pay systems involved which preclude comparability with counterpart private industry pay.

For the civil service pay systems, GAO recommends that the Congress consider recommendations made in previous GAO reports on improving the methods for setting blue- and white-collar pay.

For nonappropriated fund pay systems, the Congress should modify authorizing legislation to expand wage areas to the natural geographic labor markets in which nonappropriated fund employee activities compete for employees. Because of the "immediate locality" provision in the present law, there can be several

different nonappropriated fund pay schedules within a single labor market.

GAO recommends that legislation be modified to permit full-scale surveys to be made less often than every 2 years. Interim annual wage changes can be based on economic indicators or index relationships with other pay systems.

The Civil Service Commission and employing agencies should

- include more firms and types of firms in the nonappropriated fund surveys,
- assure that jobs surveyed represent predominant nonappropriated fund jobs at various grades,
- conduct less frequent but more thorough wage surveys using professional data collectors,
- develop criteria for equating private sector pay with nonappropriated pay in a consistent manner, and
- adjust certain nonappropriated fund pay systems so that their pay ranges more closely approximate prevailing practice in the private sector.

Agency reaction to GAO's recommendations varied. The Department of Defense, as the principal nonappropriated fund employer, particularly disagreed with changes that would broaden the scope and industry coverage of wage surveys. The Department felt that current methods adequately define prevailing rates. GAO continues to believe that the changes are needed to more closely achieve pay comparability with the private sector. The Civil Service Commission reported that it was planning an overall review of the nonappropriated fund blue-collar system which would address most of the matters that concern GAO.

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ABBREVIATIONS

CSC	Civil Service Commission
DOD	Department of Defense
GAO	General Accounting Office
NAF	nonappropriated fund

CHAPTER 1

INTRODUCTION

Nonappropriated fund (NAF) employees are paid from funds generated by NAF activities of the Government rather than from funds appropriated by the Congress. NAF instrumentalities in the Departments of Defense (DOD) and Transportation and in the Veterans Administration have a common purpose--to increase the morale, welfare, and recreational opportunities of existing or former military personnel. The activities employ about 200,000 NAF employees--about 75,000 blue collar, ^{1/} 53,000 clerical or service, and 72,000 others. These employees are paid under various compensation systems and compensation-fixing authorities.

NAF FEDERAL WAGE SYSTEM

The Federal Wage System was established pursuant to legislation approved in 1972 (5 U.S.C. 5341 et seq.). The law specifies that pay rates for blue-collar employees be fixed and adjusted periodically, as nearly as is consistent with the public interest, in accordance with prevailing rates. The law provides that pay rates be based on the principles that:

- There will be equal pay for substantially equal work within the same local wage area.
- There will be relative differences in pay within a local wage area when substantial or recognizable differences exist in duties, responsibilities, and qualifications among positions.
- Pay levels will be maintained in line with prevailing levels for comparable work within a local wage area.
- Pay levels will be maintained to attract and retain qualified employees.

^{1/}Federal blue-collar employees generally include (1) workers in a recognized trade or craft, other skilled mechanical craft, or manual labor occupation and (2) foremen or supervisors in positions having trade, craft, or labor experience and knowledge as their paramount requirements.

For NAF blue-collar employees of DOD, the Coast Guard, and the Veterans Canteen Service, however, the law limited (1) the local wage area boundaries to the "immediate locality" in which they work and (2) the prevailing comparable pay to private employers in wholesale, retail, service, and recreational establishments. Therefore a separate Federal wage system was established for NAF blue-collar employees.

This pay system covers crafts and trades jobs involving transportation; warehousing; automotive repair and service; and food, janitorial, porter, or maid service.

The Civil Service Commission (CSC) designated 145 wage areas in which annual wage surveys are made by sampling private sector establishments for selected jobs which are common to both industry and NAF instrumentalities. CSC prescribes, with the advice of the Federal Prevailing Rate Advisory Committee, governing policies, practices, and procedures for NAF blue-collar system.

The Federal Prevailing Rate Advisory Committee is responsible for studying the blue-collar wage systems and other pertinent matters and for advising CSC. The 11-member Committee consists of a Chairman who may not hold any other Federal office or position, five management members from Federal agencies, and five members from employee organizations under exclusive recognition representing the largest number of Federal blue-collar employees. The Chairman, CSC, designates all members except one management member, whom the Secretary of Defense designates.

DOD has the largest number of NAF blue-collar employees and (as designated lead agency) conducts the surveys and establishes wage schedules for each designated wage area. DOD established a five-member wage committee consisting of three management members and two labor members designated by two labor organizations having the largest number of NAF wage employees covered by exclusive recognition. This committee considers and, under certain circumstances, makes recommendations to DOD on survey specifications and data and wage schedules.

A local host installation provides support facilities and clerical assistance for the local wage survey. All installations and activities are responsible for cooperating with DOD in providing personnel to serve on the local wage survey committee and act as data collectors. Local wage

survey committees are composed of three NAF employees--two designated by DOD and one recommended by a labor organization and designated by the member's employing agency. This committee is responsible for planning the local survey, supervising the collection of survey data, and forwarding the wage data and a narrative report to DOD.

OTHER NAF PAY SYSTEMS

Although only blue-collar positions were subject to the provisions of the 1972 law, DOD administratively extended its major provisions to two other pay systems known as Administrative Support and Patron Services. The Administrative Support System covers office workers and the Patron Services System covers employees such as sales clerks, cashiers, security guards, desk clerks, and those in recreation activities.

For these two pay systems, DOD prescribes governing policies and procedures and provides overall leadership. CSC, the Federal Prevailing Rate Advisory Committee, and the DOD Wage Committee have no responsibilities for these systems.

DOD plans and schedules Administrative Support, and Patron Services pay surveys, analyzes the survey data, and establishes pay schedules. These surveys are done concurrently with the blue-collar survey through the local host installations and local wage survey committees.

The Veterans Canteen Service has sole responsibility for its Retail Clerical Administrative System. This pay system covers some field station white-collar jobs and a mixture of Administrative Support and Patron Service-type positions. The pay schedules are the same as DOD Patron Services schedules but with three additional grades.

The Canteen Service's central and field office white-collar employees are covered by the General Schedule, a statutory pay system that CSC administers. This system covers a majority of Federal white-collar jobs--professional, administrative, clerical, and technical. General Schedule salaries are based on the average salaries in the private sector and the salary rates for each grade are uniform throughout the Federal service.

The Universal Annual System covers DOD white-collar employees in NAF managerial and executive positions, and DOD administratively elected to have it follow the General Schedule system.

Some NAF employees, mostly foreign nationals, are covered by other compensation plans. This report, however, discusses only the pay systems enumerated above.

SCOPE OF REVIEW

Our review included a general examination of certain legislation and provisions of the Federal Personnel Manual Supplement 532-2 pertaining to the NAF blue-collar wage system. We examined records and documents pertaining to pay and benefits and held interviews with Federal officials, NAF management officials, union representatives, NAF employees, and wage survey data collectors. In several wage areas we also contacted private establishments.

We made the review at headquarters offices at CSC, DOD, the Veterans Canteen Service, the Coast Guard, and the Bureau of Labor Statistics and the following field activities:

<u>Wage area</u>	<u>Host installation</u>
Norfolk/Portsmouth/Virginia Beach, Virginia	Norfolk Naval Base
Craven, North Carolina	Cherry Point Marine Corps Air Station
Sacramento, California	McClellan Air Force Base
San Francisco, California	Presidio
Franklin, Ohio	Rickenbacker Air Force Base
Clark, Indiana; Hardin/ Jefferson, Kentucky	Fort Knox
Prince Georges/Montgomery, Maryland (note a)	Andrews Air Force Base

a/Limited scope.

CHAPTER 2

RELATIONSHIPS AMONG NAF EMPLOYEES

AND WITH OTHER FEDERAL EMPLOYEES

Personnel management includes the attraction, selection, motivation, leadership, understanding, and use of people as individual employees and as members of a work group for accomplishing the employing organization's missions. One of the most important objectives of personnel management is the equal and fair treatment of employees. Because of two constraints--different legal entitlements and decentralized nonappropriated fund management--employee pay and benefits are not consistent among NAF activities nor between NAF and other Federal employees.

DIFFERENT LEGAL ENTITLEMENTS

Although NAF employees have similar jobs at similar NAF instrumentalities, as a group they lack uniform treatment. Some NAF employees are designated Federal employees subject to Civil Service Commission-administered laws; but most are not. Some NAF employees are paid from the same pay schedules as civil service employees; most are not.

For example, the law designates all Veterans Canteen Service employees Federal employees but divides them into two groups: (1) central and field office employees who are paid under the General Schedule pay system, provided civil service fringe benefits, and subject to other CSC-administered laws, such as those concerning competitive selection, and (2) field station employees who are paid under the NAF blue collar pay system and are exempt from competitive selection laws but who are authorized civil service fringe benefits. Another law provides that certain NAF employees of the Coast Guard and DOD are not employees of the United States for the purpose of any laws administered by CSC. DOD commissaries are similar in many respects to NAF activities and exist to provide a morale and welfare benefit. Yet, commissary employees are paid from appropriated funds, and have civil service status, pay, and benefits.

Although most NAF employees are not considered Federal employees under CSC laws, some laws nonetheless apply to all or part of the NAF work force. For example, most NAF employees are covered by the Federal employee unemployment compensation law and, like other governmental pension plans, NAF

retirement programs are exempted from provisions of the Employee Retirement Income Security Act. In addition, many laws do not specifically apply to, but have been administratively extended to cover NAF employees. For example, DOD, by regulation, extended coverage to NAF employees to restrict their political activities, refrain them from striking, and adhere to Federal employee standards of conduct.

Thus the legal status of NAF employees depends on the specific law in question and its intended applicability. If it specifically includes NAF employees, it will usually be stated in the definition of the term "employee" for purposes of the law.

A 1975 DOD research report entitled "The Legal Status of NAF Instrumentalities and Their Employees" states that laws and court decisions usually have considered NAF activities to be instrumentalities of the United States, NAF moneys to be Government funds, and properties acquired with these funds to be Government properties. Also, the report states that NAF employees are employees of the U.S. Government except for purposes of the laws administered by CSC and the provisions of the Federal Employees Compensation Act. However, the report observed that there was an increasing trend toward including NAF employees in legislation designed to protect other Federal employees.

DECENTRALIZED MANAGEMENT

The Veterans Canteen Service, Coast Guard, and DOD are individually responsible for promulgating personnel policies and procedures for their NAF employees. Canteen Service policies and procedures are generally predicated upon those for Federal civil service employees. The Coast Guard, for the most part, follows policies and procedures promulgated by DOD.

The head of each DOD component traditionally has been responsible for providing morale, welfare, and recreational activities and has delegated the responsibility to a lower management level. Most of DOD's NAF instrumentalities are organized under six major organizations--Army, Navy, Marine Corps, Air Force, Army-Air Force Exchange Service, and Navy Resale Systems Office. Except for the DOD Salary and Wage Fixing Authority, the Secretary of Defense's management role is limited to developing broad policy guidance. Each of the services had independently developed policies for

administering NAF activities, and consequently follow varying personnel policies and practices.

IMPACT OF CONSTRAINTS ON EMPLOYEES

In September 1974 DOD issued an NAF Personnel Policy Manual which was the first attempt to provide uniformity in NAF personnel management throughout DOD. Each DOD component was to develop implementing regulations.

Implementation of DOD policies was in various stages at the time of our review and all six major DOD NAF organizations had completed basic personnel manuals. Because specific policies are set and enforced by independent NAF organizations, actual practices vary in such areas as use of personal service contracts, definitions and use of other than full-time personnel, and pay for employees who earn tips.

Benefits

Employee benefits vary depending on the legal status of the employee and the agency and organization in which he or she works. By law, employees of the Veterans Canteen Service and DOD commissaries participate in civil service benefit programs. The law does not authorize NAF employees of DOD and the Coast Guard to participate. Such employee benefits are sponsored by the employing NAF organization.

The type of employees covered by health and life insurance benefits vary only slightly among the eight major NAF organizations, as shown below.

	Type of employment			
	<u>Full time</u>	<u>Part time</u>	<u>Temporary (full and part time)</u>	<u>Intermittent</u>
Canteen Service	Voluntary	Voluntary	a/No coverage	b/No coverage
Air Force	do.	Voluntary	do.	do.
Army	do.	c/Voluntary	do.	do.
Army-Air Force Exchange	do.	No coverage	do.	do.
Navy Resale	do.	No coverage	do.	do.
Marine Corps	do.	Voluntary	do.	do.
Coast Guard	do.	No coverage	do.	do.
Navy	do.	No coverage	do.	do.

a/Temporary appointments that exceed 1 year may provide both insurances.

b/May vary by type of appointment.

c/Employee must work at least 25 hours a week to be eligible for participation.

Differences in the benefit levels and employer/employee contributions also existed. For example, one health insurance plan covered some dental expenses while most did not. Some combined package plans required participation in life insurance to be eligible for health insurance. A few also offered long-term disability insurance.

Annual and sick leave benefits were comparable among the major NAF organizations. The availability of retirement coverage also varied somewhat.

	<u>Type of employment</u>			
	<u>Full time</u>	<u>Part time</u>	<u>Temporary (Full and part time)</u>	<u>Intermittent</u>
Canteen Service	a/Mandatory	a/Mandatory	a/No coverage	a/No coverage
Air Force	Voluntary	No coverage	do.	do.
Army (note b)	Mandatory	c/Mandatory	do.	do.
Army-Air Force				
Exchange	Mandatory	No coverage	do.	do.
Navy Resale	Voluntary	Voluntary	do.	do.
Marine Corps	Voluntary	Voluntary	do.	do.
Coast Guard	Voluntary	Voluntary	do.	do.
Navy	Voluntary	No coverage	do.	do.

a/May vary with type of appointment.

b/Mandatory for eligible employees after 1 year.

c/Employee must work at least 25 hours a week to be eligible for participation.

Retirement benefits vary significantly. For example, the Army plan uses the average of the highest 5 consecutive paid years to compute retirement benefits, while others use the highest 3 years. DOD and Coast Guard NAF employees are covered by social security and, with the exception of the Army, all their retirement systems incorporate an offset for social security benefit payments. Most Canteen Service employees are covered by the civil service retirement program and cannot be covered by social security for such employment. Employee contributions and survivor annuity options also differ.

A major difference is the availability of benefits to part-time regular employees who are a large part of the NAF work force. Part-time employees represent about 44 percent (12,800 employees) of the Army-Air Force Exchange Service's 29,000 hourly paid employees in the continental United States.

DOD has been greatly concerned over the significant variance in benefits, particularly retirement. The DOD NAF

Personnel Policy Manual established minimums for NAF retirement and insurance benefit programs, effective January 1, 1976. This was a step in the right direction toward establishing more equitable retirement and insurance benefits, but benefits still vary. As a result of the DOD manual, the Air Force started a retirement program on January 1, 1976, for its NAF employees which incorporated the DOD minimums, but other organizations' programs are more generous.

Pay

The pay for many NAF employees was determined independently by the Veterans Canteen Service, the Coast Guard, and individual DOD activities until 1972.

Some uniformity in pay determination was then introduced by Public Law 92-392, which provided for an NAF blue-collar pay system having specific pay adjustment process and CSC interpretations and oversight. Employees also gained the protection and benefit of CSC classification standards and appeal processes and union participation in wage fixing.

But the pay for other NAF employees--primarily white-collar employees--is still determined administratively by DOD, the Coast Guard, and the Canteen Service. Of these, executives and managers are generally paid the same salary rates as the General Schedule rates. For other NAF white-collar employees, DOD sets the rates based on prevailing locality rates, using processes similar to the NAF blue-collar process. For the most part, these employees have only intra-agency appeal rights, and their union representatives have little input in the pay-setting processes.

Blue-collar employees

Public Law 92-392, which established both civil service and NAF blue-collar pay systems, stated the Congress policy that blue-collar pay rates be fixed and adjusted in accordance with local prevailing rates. This law also stated that there would be equal pay for substantially equal work under similar conditions within the same local wage area. But equal pay for equal work is not provided across the civil service and NAF blue-collar pay systems because application of other legislative and administrative provisions result in substantially lower NAF blue-collar rates. The provisions

--limit NAF wage area boundaries to the immediate locality (see p. 18);

- limit NAF wage surveys to pay rates paid by private employers in similar wholesale, retail, service, and recreational establishments (see p. 21); and
- lower the minimum establishment size for NAF wage surveys (see p. 11).

The 1972 law provides for CSC to define individual wage areas for prevailing rate employees of both systems but the law further stated that NAF wage area boundaries shall not extend beyond the "immediate locality" in which NAF employees work. Consequently, the definitions and criteria for establishing wage areas for civil service and NAF blue-collar pay systems differ. A civil service wage area is a geographic area with concentrations of civil service and private industry blue-collar employees and includes, whenever possible, a recognized economic community such as a standard metropolitan statistical area. An NAF wage area is simply one or more counties having NAF employees.

Both types of wage areas are established under the same conditions--there must be enough civil service or NAF wage employees to make a survey worthwhile, a capability to conduct a survey, and sufficient private industry employment within the survey area to provide pay data. The systems have different criteria for determining when these conditions are met.

<u>Minimum criteria</u>	<u>Civil service</u>	<u>NAF</u>
Federal employees under the pay system	100 in one agency	26
Private sector employment	(1) 20 establishments with 50 employees each or (2) 10 establishments with 50 employees each with total of 1,500 employees	1,800 employees in wholesale, retail service, and recreational establishments
	and	
	(3) total employment in survey industries twice the Federal wage employment in survey area	

The law placed no limitations on industry wages that could be surveyed for civil service wage determination. The industries actually surveyed are manufacturing, transportation, communications, public utilities, and wholesale trades. But the law limits NAF blue-collar survey wages paid by private employers in a representative number of wholesale, retail, service, and recreational establishments. These industries are among the lowest paying as shown by the following Bureau of Labor Statistics February 1974 industries' pay relationships expressed as a percentage of the average for all industries.

	<u>Office clerical occupations</u>	<u>Custodial, material movement occupations</u>
All industries	100	100
Manufacturing	104	107
Nonmanufacturing	98	98
Public utilities	118	132
Wholesale trade	101	100
Retail trade	91	87
Finance	91	(a)
Services	98	78

a/Insufficient data.

Prescribed industry establishments that have more than 50 employees within a survey area are included in the civil service blue-collar survey universe. For NAF surveys, establishments with only 20 or more employees are included; establishments in four industry classifications can be included if they have 8 or more employees. Larger establishments tend to pay higher rates than smaller establishments.

The above limitations imposed by the law and the agencies' interpretation and execution of the law have resulted in different wage rates for civil service and NAF blue-collar employees doing substantially the same work within the same local area. The difference for all wage areas as of June 30, 1976, follows.

<u>Grade/step</u>	<u>Average hourly wage</u>		
	<u>Civil service</u> (note a)	<u>NAF</u>	<u>Difference</u>
1 - 2	\$4.05	\$2.46	\$1.59
2 - 2	4.30	2.63	1.67
3 - 2	4.56	2.84	1.72
4 - 2	4.81	3.01	1.80
5 - 2	5.06	3.22	1.84
6 - 2	5.32	3.51	1.81
7 - 2	5.57	3.71	1.86
8 - 2	5.82	3.96	1.36
9 - 2	6.03	4.2	1.86
10 - 2	6.33	4.49	1.84

a/Excludes higher paying Alaska and lower paying Puerto Rico.

The Congress has treated military commissaries and NAF activities as resale activities for the welfare of the military community. Both activities also have job classifications based on the same CSC standards; however, their employees may earn substantially different wages for the same work because they are paid under different pay systems. This is illustrated by comparing the following positions in the Norfolk, Virginia, wage area.

<u>Job title</u>	<u>Employer</u>	<u>Classifi- action</u>	<u>Hourly rate</u>	<u>Difference</u>
Storeworker	Commissary	WG-7602-4	\$4.04	\$1.32
	Exchange	NA-7602-4	2.72	
Janitor	Commissary	WG-3566-2	3.58	1.16
	Exchange	NA-3566-2	2.42	
Air condi- tioning and equip- ment mechanic	Commissary	WG-5306-10	5.42	1.54
	Exchange	NA-5306-10	3.88	

white-collar employees

Clerical and management NAF white-collar employees in Canteen Service central and field offices are under the General Schedule pay system. DOD administratively adopted the General Schedule for its management employees only. DOD lower level NAF white-collar employees are paid under two separate systems--Administrative Support and Patron Services--similar to the NAF blue-collar system. The Coast Guard also uses these two DOD pay schedules. The Canteen Service uses

a modified DOD Patron Services schedule for some of its lower skilled, white-collar employees. Although most of the Canteen Services jobs are similar to DOD's Patron Services jobs, some parallel DOD's Administrative Support positions. Consequently, employees performing essentially the same jobs are paid different rates because the schedules are based on different premises, such as different geographical survey areas, survey industries, survey establishment size, and pay ranges.

General Schedule pay rates are determined and applied nationally and are based on surveys of (1) manufacturing and retail establishments that have 250 1/ or more employees and (2) transportation, utility, wholesale, financial, research, and other establishments that have 100 or more employees. DOD's Administrative Support and Patron Services schedules are based on the same geographical wage areas (counties) and minimum establishment size (20 in most cases) as the NAF blue-collar system. Survey establishments are also essentially the same except that certain enterprises, such as financial establishments, are added to the retail, wholesale, and service industries. Consequently, pay varies between NAF employees paid nationwide General Schedule rates and those paid under local prevailing rate schedules.

The table below compares the hourly pay rates at the linkage points (grades at which job duties and responsibilities match) between the Administrative Support and Patron Services schedules and the General Schedule. The rates shown for the DOD schedules are nationwide averages of the schedule's rates at step 2, the average prevailing rate in the private sector, as of January 2, 1977. The comparable General Schedule rates are the average 2/ amounts paid employees at these grades (adjusted for the October 1976 pay raise).

<u>Grade</u>		<u>Rate</u>			<u>Amount General Schedule exceeds</u>	
<u>General Schedule</u>	<u>Admin. Support and Patron Services</u>	<u>Admin. Support</u>	<u>Patron Services</u>	<u>General Schedule</u>	<u>Admin. Support</u>	<u>Patron Services</u>
1	1	2.53	2.47	2.84	0.31	0.37
5	7	3.84	3.60	5.08	1.24	1.48

1/For the pay raise effective October 1977 minimum establishment size was lowered to 100 in some manufacturing industries.

2/The General Schedule average is used since its pay-setting process relates private sector average pay to the Federal average pay in each grade range.

In most wage areas, DOD's local rates were lower than General Schedule rates, but in some areas, NAF rates were higher than General Schedule rates. For example, NAF hourly pay in the San Francisco area at one grade was as \$0.83 higher.

Public Law 92-392 set a 16-percent pay range for each grade of the civil service and NAF blue-collar pay schedules. DOD administratively set this range for its white-collar Administrative Support and Patron Services schedules. But prevailing practice for white-collar workers in the private sector is a 30-percent range according to studies of the American Management Association. We believe that the NAF white-collar pay ranges should better equate private sector pay.

SHOULD NAF EMPLOYEES BE TREATED DIFFERENTLY
FROM OTHER FEDERAL EMPLOYEES?

The NAF work force is unified in the sense that it is composed of employees who perform the same types of jobs in similar organizations. However, this work force lacks a single, agreed upon identity. As previously discussed, some NAF employees are designated Federal employees subject to laws administered by CSC, but most are not; others receive hybrid treatment. Consequently, employee pay and benefits often vary among NAF activities and between employees of most NAF activities and other Federal employees.

By administratively extending to NAF employees those obligations and responsibilities demanded only of Federal employees, DOD has contributed to a feeling that NAF employees should be treated as their civil service counterparts. In one case, DOD concluded that NAF employees met the test of Federal employment sufficiently to supervise civil service employees. The Government has also successfully contended, in judicial proceedings, that NAF employees are Federal employees and therefore precluded from bringing action against the Government under the Federal Tort Claims Act.

The Coast Guard and DOD oppose civil service treatment because they believe higher costs would result which would threaten the financial stability of NAF activities. These activities largely support themselves through revenues they produce just as commercial retail stores, restaurants, and recreation activities in the private sector. Each NAF instrumentality is in essence a separate business enterprise and financial entity. Higher NAF personnel costs cause

increased prices for goods and services and thus erode the service member's fringe benefit package and could lead to reduced patronage and curtailed operations.

On the other hand, employee unions strongly favor more equal treatment between NAF and civil service employees, particularly equal pay for equal work. Unequal pay for equal work was felt to be a cause of low morale in the NAF work force.

If NAF labor costs were increased disproportionately over similar activities in the private sector, who should bear the increased costs to subsidize the higher compensation--users or the Government? Civil service treatment would also raise other questions, such as the continued employment of off-duty military personnel and the proper accounting and financing of any credits for past service.

Closer comparability of civil service compensation with private sector compensation would ameliorate some of the differences. In past reports, we have recommended changes in the civil service blue- and white-collar pay systems and benefit programs--as have other groups such as the President's Panel on Federal Compensation. These changes would make Federal compensation more closely represent non-Federal compensation.

In May 1973 and July 1974 reports 1/ on the white-collar pay-setting process, we recommended improvements in the survey of non-Federal salaries and the process of translating survey data into Federal salaries. Some significant improvements were administratively implemented, but legislation still prevents surveys of State and local governments which are major competitors in the labor markets.

Other reports also contain recommendations which require legislative changes. In October 1975 2/ we

1/"Improvements Needed in the Survey of Non-Federal Salaries Used as Basis for Adjusting Federal White-Collar Salaries" (B-167266, May 11, 1973) and Letter report to the Director, Office of Management and Budget and Chairman, Civil Service Commission (B-167266, July 12, 1974).

2/"Federal White-Collar Pay Systems Need Fundamental Changes" (FPCD-76-9, Oct. 30, 1975).

recommended that (1) the General Schedule--which classifies many heterogeneous occupations of the same grade based on job duties and responsibilities regardless of the actual pay relationships among these jobs in private industry--be replaced by separate systems designed around more logical groupings of occupations, (2) pay be based on the rates existing in the labor market (geographic) in which each group competes, rather than on a national rate, and (3) within-grade increases be based more on performance than on longevity. In July 1975 1/ we recommended establishing a policy of total compensation comparability--both pay and benefits--since benefits are a major element of compensation and are not recognized in the pay comparability processes.

In June 1975 2/ we made several legislative recommendations to improve the civil service blue-collar pay system. Many of the observations and recommendations are also applicable to the NAF blue-collar system since it was created by the same law, covers similar prevailing rates employees, and uses a similar wage-setting process. Aspects of the system that should be changed are as follows:

--The Federal blue-collar pay range at each nonsupervisory grade is 16 percent with five equal steps. In contrast, most private sector blue-collar employees are paid under single-rate pay schedules and when multiple-step pay schedules are used they often have fewer than five steps. Because the second step of the Federal blue-collar pay schedule is equated to the prevailing private sector rate, Federal employees receive pay 12 percent above the prevailing rate when they move into the fifth step. Private sector average pay rates should be equated with average Federal rates in a manner similar to the white-collar comparability process. That is, the average pay rate of the private sector should be related to a point in the pay range which represents the average step of blue-collar employees rather than the predetermined step 2.

1/"Need for a Comparability Policy for Both Pay and Benefits of Federal Civilian Employees" (FPCD-75-62, July 1, 1975).

2/"Improving the Pay Determination Process for Federal Blue-Collar Employees" (FPCD-75-122, June 3, 1975).

--Under certain conditions blue-collar wages must be set using wage data obtained outside a particular wage area, thus producing pay rates different from those prevailing locally.

--Blue-collar night differential pay rates are based on a percentage of employees' scheduled wage rates and often a more generous differential rate than the prevailing private sector differential rate results. Uniform night differential rates erode the concept of maintaining pay for Federal blue-collar employees in line with pay rates prevailing within a local wage area.

CSC officials advised us that legislation improving the blue-collar pay system had been submitted to the Congress and that they were developing a proposal to split the General Schedule into two schedules and to obtain authority to establish occupational pay schedules. Also, they are developing a process for total compensation comparability.

We believe that these changes would greatly improve Federal pay and benefit systems by better equating Federal compensation with that in the non-Federal sector. This would enable the Government to be a fair competitor in the labor market.

RECOMMENDATION TO THE CONGRESS

The Congress should favorably consider the recommendations in our previous reports (see footnotes on pp. 15 and 16) on the pay-setting process for white- and blue-collar employees.

RECOMMENDATION TO THE SECRETARY OF DEFENSE

We recommend that the Secretary revise the Administrative Support and Patron Services pay systems so that the pay ranges more closely approximate those in the private sector.

Agency comments

DOD agreed that pay ranges should follow private sector practices, and it wants to further study those practices before making changes.

CHAPTER 3

IMPROVING PAY-SETTING PROCESSES

Nonappropriated fund employee pay levels are required to be maintained in line with those of certain private sector industries for comparable work in the local wage area. Private sector pay data for selected jobs, common to both industry and NAF instrumentalities, is collected and analyzed annually to determine local prevailing rates and then translated into NAF pay rates.

So that the wage data collected is sufficiently representative of local labor market rates, a need exists to (1) expand the wage areas to the natural geographic labor markets in which NAF activities compete for employees, (2) include more firms and types of firms within the prescribed industries, (3) make sure that the jobs surveyed represent the predominant NAF jobs at the various grade levels, and (4) improve the data collection process. Also, a need exists to develop criteria that can be consistently used to translate private sector pay data into NAF pay rates.

LIMITED WAGE AREA BOUNDARIES

The law limits NAF blue-collar local wage area boundaries to the "immediate locality" in which NAF employees work. CSC, with the advice of the Federal Prevailing Rate Advisory Committee; interpreted immediate locality as the smallest geographic area that would produce a valid statistical sample. Since counties are the smallest areas for which employment data is maintained, an area of one or more counties was adopted as the basic unit for fixing and applying wages. For a survey to be conducted, a wage area must have (1) enough NAF blue-collar employees (at least 26) to make a survey worthwhile, (2) capability to conduct a survey, and (3) sufficient private employment (at least 1,800) in specified industries to provide adequate data. Areas which do not meet the survey criteria are assigned the pay rates of the closest area surveyed.

CSC's interpretation of the immediate locality provision and its implementing criteria resulted in establishing areas which do not necessarily represent the labor markets in which NAF activities compete for employees.

Some boundaries cut through natural labor markets resulting in different wages for similar jobs in the same market. For example, the Bureau of Labor Statistics area

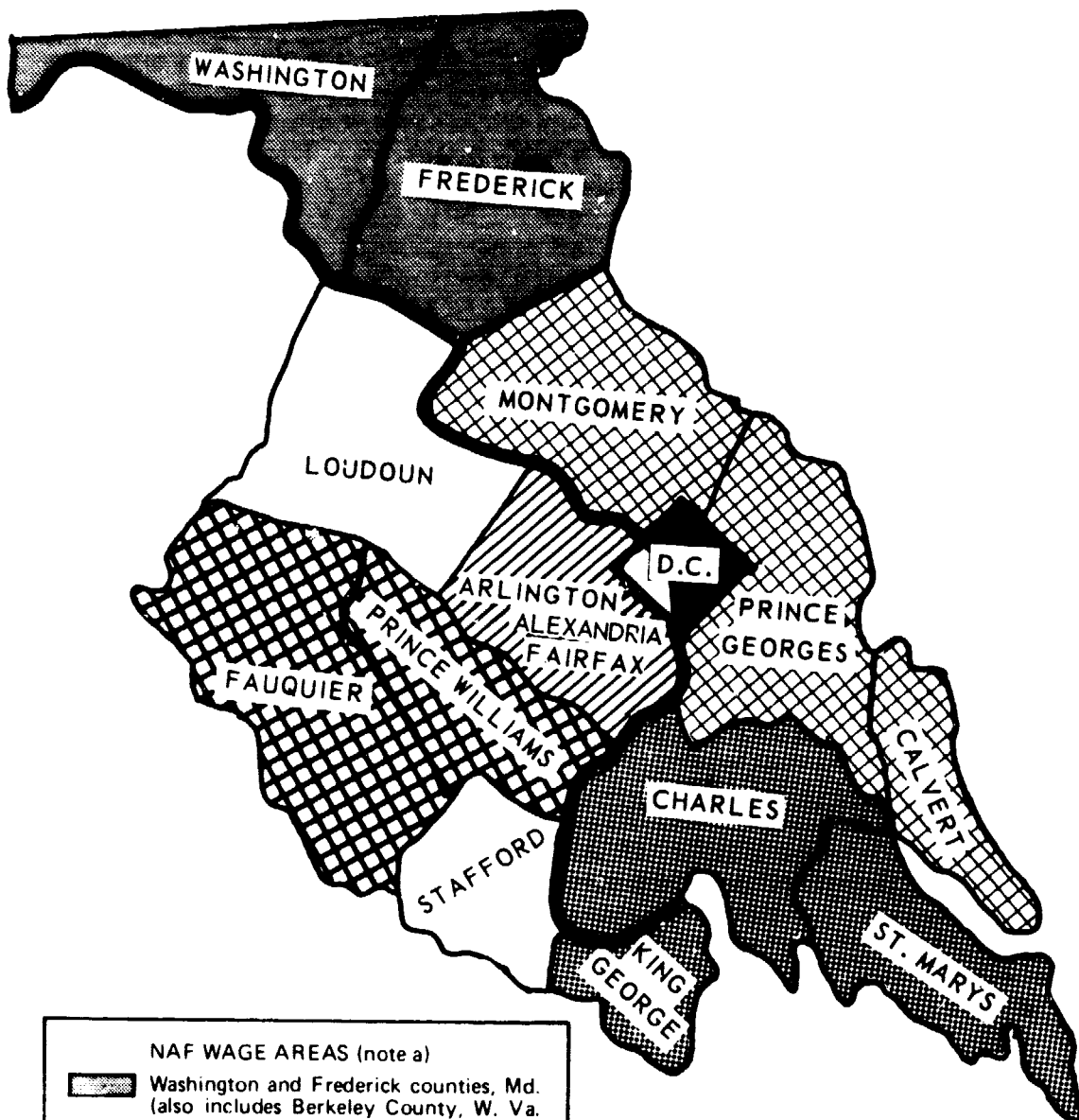
wage survey and civil service blue-collar survey define the Washington, D.C., area labor market as the city of Washington; the Maryland counties of Charles, Montgomery, and Prince Georges; the Virginia cities of Alexandria, Fairfax, and Falls Church; and the Virginia counties of Arlington, Fairfax, Loudoun, and Prince William. But the same basic area has been broken up into six NAF wage areas. (See map on p. 20.) An NAF janitor (grade 2, step 2) at the Army and Air Force Exchange Service at Walter Reed Army Medical Center in Washington, D.C., receives \$3.11 an hour. But a janitor at the Service's Forest Glen Exchange, just across the State line in Montgomery County, Maryland, receives only \$2.91 an hour. And a janitor at the Fort Myer Officers' Club just across the Potomac River in Arlington, Virginia, receives only \$2.82 an hour.







Another drawback in wage area criteria is that a county may not be surveyed if it has less than 26 NAF blue-collar employees, regardless of its proximity or how significantly it represents a major portion of the labor market. For example, Detroit's Standard Metropolitan Statistical Area and the civil service blue-collar survey area each encompass Wayne, Macomb, and Oakland Counties. For the NAF system, Macomb County is surveyed because it meets survey area criteria. Wayne and Oakland Counties, which have less than the minimum number of NAF employees, are not surveyed even though they are important parts of the local labor market. In 1973 Wayne and Oakland Counties had private employment of over 1.2 million while Macomb County had only 169,000, or 12 percent, of the private employees in the labor market. Because such a major portion of the labor market is excluded from the survey, there is little assurance that the resultant NAF pay rates represent prevailing local wages.

Nonrepresentative pay rates applied to nonsurvey areas

Any county with NAF employees but not meeting CSC survey area criteria (see p. 10) was assigned the pay rates of the closest area surveyed regardless of whether or not the two locations were economically similar. This sometimes resulted in importing wage rates different from those prevailing locally. Such areas (application areas), often 75 to over 200 miles from the survey area, differ significantly in population; urban, suburban, or rural characteristics; and principal industries.

For example, the higher wages of the Minneapolis-St. Paul metropolitan area, with private employment of about



NAF WAGE AREAS (note a)	
	Washington and Frederick counties, Md. (also includes Berkeley County, W. Va.)
	Prince Georges, Montgomery, Calvert counties, Md.
	Washington, D.C.
	Charles and St. Marys counties, Md., King George County, Va.
	Alexandria City, Arlington and Fairfax counties, Va.
	Prince William and Fauquier counties, Va.

^{a/} Washington County, Md., is not in the civil service blue-collar wage area. Loudoun and Stafford counties in Virginia are not in NAF wage areas because they have no NAF employees.

424,000 were used in rural Monroe County, Wisconsin, 175 miles away, much less industrialized, and with only about 5,700 private sector employees. NAF officials in Monroe County reported that the Minneapolis-St. Paul wage rates were, on the average, 40 percent higher than Monroe County wages. Also, the higher wages of metropolitan Atlanta, with private employment of about 475,000, were used 180 miles away in Athens, Georgia, located in Clarke County, which had about 24,000 private sector employees. Department of Commerce average payroll data suggests that private sector pay rates in Atlanta are higher by about 29 percent in eating and drinking establishments and by about 28 percent in department stores. NAF officials in the Athens area reported that the average imported wage for four NAF jobs ranged from 6 to 24 percent higher (step 1 and 5, respectively) than the average wage for the same jobs at two leading establishments in Athens.

Surveys are also conducted in suburban or rural counties and applied to urban counties, resulting sometimes in wage rates lower than those prevailing in the application area. For example, the wage rates for Madison County, Alabama, with about 46,000 private sector employees, were applied to Nashville, Tennessee, in a county with private employment of about 200,000 and about 100 miles from the survey area. Bureau of Labor Statistics area wage surveys indicate 18 percent higher wages for selected blue-collar jobs in the Nashville metropolitan area.

In 1975 the Federal Prevailing Rate Advisory Committee adopted criteria such as similarities in demographics, urban/rural characteristics, and principal private employment on which to consider application areas rather than simply importing wages from the nearest surveyed area. Some areas have been reassigned on a case-by-case basis but no application areas have been reassigned as a direct result of the new criteria.

LIMITED INDUSTRY COVERAGE

CSC regulations exclude some types of firms from the surveys and many other firms do not participate. In several cases, wages from a few firms dominated the pay data. In each of 13 wage areas we analyzed, three establishments provided at least 23 percent and as much as 43 percent of all data. Similarly, three firms provided from 31 to 68 percent of the data for Patron Services jobs. How well these firms' pay rates represented prevailing rates, however, is not known.

As discussed in the previous chapter, the law limits the NAF blue-collar survey universe to wage rates paid by private employers in retail, wholesale, service, and recreational establishments similar to those in which NAF employees work.

On the basis of similar activity and jobs, CSC further limited survey universe to certain industry classes, or types of firms, within the specified industries. Industry classes are established on the basis of a firm's major activity and the product or groups of products produced or services rendered. CSC regulations provide for 26 industry classes to be surveyed--17 of 48 wholesale trade, 6 of 61 retail trade, and 3 of numerous service classifications. Excluded are such enterprises as automobile repair shops, public golf courses, bakeries, and schools and colleges--some of which appear similar to NAF activities. (See app. I for a listing of included/excluded industry classes.)

DOD may not omit any of the required industry classes. It may, however, add other classes from the specified industries when these classes account for large proportions of local private employment, such as those found in local NAF employment. Most wage surveys have included only the required industry classes. Occasionally, local NAF officials have requested that surveys include grocery stores because they compete with NAF activities for certain employees. These requests have always been denied because NAF activities do not sell groceries as a primary activity.

Jobs such as janitors, laborers, truck drivers, materials handling equipment operators, sales clerks, and cashiers can be found in many more industry classes than those to which NAF surveys are limited. Excluding industry classes that have many potential job matches limits the wage rates collected and prevents a more representative sample of the total wage rates available for a surveyed job.

Private sector participation

The Bureau of Labor Statistics furnishes DOD with survey establishment lists for each full-scale wage survey in accordance with survey specifications for the wage area. The lists in about half of the NAF wage areas indicate all establishments within the prescribed industry and size groups. In the other half, the lists contain specific establishments to be surveyed which the Bureau selected using standard probability procedures; alternate establishments are to be substituted when specific establishments do not participate.

The survey sample is intended to represent all establishments meeting prescribed size and industry classification criteria within the wage area. A high participation rate by the listed establishments is a prerequisite for developing local prevailing pay levels that are statistically valid. But establishment participation in NAF surveys has been substantially lower than desirable. During calendar years 1974 and 1975, 8,941, or about 55 percent, of 16,069 survey firms contacted did not participate in NAF wage surveys. Overall, the firms can be categorized as follows:

	(Percent)
Participants:	
Supplied usable data	39
Data not usable	2
Cooperated but had no matches	<u>4</u>
Total	<u>45</u>
Nonparticipants:	
Refused to participate	24
Had too few employees	12
Unknown location	6
Wrong industry classification	5
Out of business	4
Out of area	2
Other	<u>2</u>
Total	<u>55</u>
Total	<u>100</u>

DOD officials attributed a large percentage of non-participation to inaccurate or out-of-date information about the firms on the Bureau of Labor Statistics sample lists which are compiled from State unemployment insurance files. The Bureau uses these lists for other pay surveys but has fewer problems because it has professional field staffs that monitor and update the sample lists as necessary. The Bureau also surveys larger firms which may be more stable. The Bureau, CSC, and DOD are exploring means of upgrading establishment sample lists.

As indicated in the above table, refusal was the primary reason for nonparticipation. In two wage areas we

visited, survey files occasionally contained the reasons for an establishment refusal. The most frequent reasons were that the wage information must be obtained from the home or regional office and that permission for local establishment participation had to be obtained from headquarters. But little or no attempt was made to contact the home offices.

We followed up on 51 of 107 firms that did not supply data in the fall 1975 San Francisco survey and found the following reasons for refusing to participate.

Participated in the previous NAF wage survey	6
Information unavailable at the designated location	8
Too busy	6
No authority to release the requested information	6
No recollection of contact by NAF data collectors	6
No reason given	13
Miscellaneous other reasons	<u>6</u>
Total	<u>51</u>

DOD and Bureau of Labor Statistics officials believe that using NAF employees as data collectors contributes to the large number of refusals. Most collectors do not have the skills, knowledge, or training that would enable them to convince a president, owner, or manager of a business to reveal closely guarded business information. (See pp. 27 to 30 for further discussion of data collectors.)

PREDOMINANT NAF JOBS

In each local wage survey, rates are collected for a prescribed list of jobs, selected to cover a wide range of occupations common in skill, and responsibility in both industry and NAF instrumentalities. But, CSC and DOD cannot be sure that the predominant NAF jobs are on the prescribed list because they lack current statistics on the number of employees by job. Also, private sector pay data on many of the listed jobs in many wage areas was not available or sufficient for use in determining Federal rates. Consequently, some grade levels were unrepresented and a few jobs dominated the overall data.

For the NAF blue-collar survey, CSC prepared survey job descriptions keyed to private sector work situations which

represent occupations and work levels in NAF activities. These 31 standard survey jobs are shown in appendix II. All jobs must be surveyed except one which may be optionally surveyed under certain conditions. DOD must obtain prior CSC approval to survey a job not listed. Most NAF surveys contained only the standard list of survey jobs.

For the Patron Services and Administrative Support pay systems, DOD selected 16 and 14 survey jobs, respectively, to represent all occupations and work levels within those systems. These white-collar survey jobs are also shown in appendix II.

To be representative of the NAF work force, survey jobs should include the most populated ones. When formulating the list of standard survey jobs, CSC relied on a private contractor study, Bureau of Labor Statistics data, and past experience with appropriated fund job surveys because there is no inventory of the NAF work force by job. Without such an inventory, CSC and DOD cannot be sure that the standard survey jobs include the predominant NAF jobs.

At all seven installations we visited the surveys excluded at least 2 and as many as 5 of the 10 predominant jobs. Although characteristics of a host installation cannot necessarily be projected to the entire wage area, our findings illustrate the need for an NAF position inventory.

In all seven areas, predominant NAF jobs included some in which employees received tips as part of their wages or were paid from special pay plans such as commission-paid barbers and beauticians. CSC has not permitted these types of jobs to be surveyed because of the difficulty of determining actual pay. Meanwhile, NAF activities have been permitted to continue varying past practices for paying such employees. Consequently, in the Sacramento, California, area NAF wages varied among activities by as much as 8 percent for waitresses and 13 percent for bartenders.

The predominant NAF positions in a wage area should be surveyed. A survey of tipped employees could show the base rate received and average percentage of base pay received in tips, estimated by collecting data on average amount of tips per gross sales. The Bureau of Labor Statistics uses this procedure. Also, data could be collected on private industry commission pay-plan practices. This would help insure that the wage data collected represents NAF jobs.

CSC attempted to insure that all levels of work would be fully represented by establishing a standard list of 24 survey jobs, later increased to 30, comprising NAF blue-collar positions in grades 1 through 10. Similarly, DOD selected 14 white-collar survey jobs for the Administrative Support pay system and 14 other jobs, later increased to 16, for the Patron Services system. Because many NAF jobs could not be matched to private sector jobs, a few jobs dominate the data and many grades or work levels, particularly the higher grades are not represented. Consequently, some pay schedules have been constructed on data bases which were not fully representative of the survey universe.

A survey job must have five matches to be considered adequately matched and used in determining NAF pay. From 1974 to 1975, in no wage area were all 24 NAF blue-collar survey jobs adequately matched. In 80 of 148 wage areas, 13 or less (as few as 8) jobs were used to determine NAF pay. Six survey jobs produced 66 percent of all pay data.

In 62 wage areas, 7 or fewer of the 14 Administrative Support jobs were used to calculate pay. Four jobs produced 66 percent of pay data; seven jobs accounted for 88 percent. Similar conditions existed for the Patron Services pay system. Seven or fewer of the 14 survey jobs were used to determine pay in 75 wage areas. Three jobs produced 69 percent and five jobs, 87 percent of the pay data.

When a grade is not represented, its wage rate must be constructed or extrapolated from the other survey data. Such a process may result in rates not comparable with private sector pay levels.

The NAF blue-collar system requires that at least 100 job matches, for all the survey jobs combined, be used to compute the final pay line. The Administrative Support and Patron Services systems each require a minimum of 25 matches. Over the 2-year period, 1974 through 1975, the usable job matches numbered as few as 87 for NAF blue-collar wage system, 18 for Administrative Support system, and 52 for Patron Services systems. In 43 wage areas, the blue-collar pay schedule was based on less than 200 job matches as were Administrative Support schedules in 68 wage areas and Patron Services schedules in 47 wage areas. (App. III shows the stratified distribution of job matches.)

The minimum data requirements call for job matches within different grade ranges; they do not mandate data in each grade. Thus a pay line could be based on just 2 or 3

of the 10 NAF blue-collar or 7 white-collar grades. CSC required the following minimum distribution among the 100 blue-collar job matches.

<u>Within grades</u>	<u>At least this number of jobs</u>	<u>Each with at least this number of matches</u>	<u>Total matches</u>
1 through 4	2	10	20
	1	5	5
5 through 10	3	5	15
Any grade	2	5	10

DOD's criteria for the distribution of Administrative Support and Patron Services job survey matches follow.

<u>Within grades</u>	<u>At least this number of jobs</u>	<u>Each with at least this number of matches</u>	<u>Total matches</u>
1 through 3	1	5	5
4 through 7	1	5	5
Any grade	3	5	15

Eighty-six percent of the blue-collar pay data collected was for jobs in grades 1 through 5 and 4 percent in grades 9 and 10. Of the 10 blue-collar grades, 1 was not represented by survey data in more than 80 percent of the wage areas; another grade was not represented in 60 percent of the wage areas; a third grade was not represented in almost 40 percent of the wage areas; 3 more were not represented in 24, 20, and 16 percent of all wage areas. Together, these grades had 26 percent of all NAF blue-collar employees.

Two of the seven Patron Services grades--6 and 7--were not adequately matched in more than three-fourths of the wage areas. Ninety-two percent of all Patron Services data collected represented grades 1 through 3. Thus, pay data in lower grade ranges dominated survey statistics and disproportionately influenced resultant pay rates. (See app. II for the distribution of collected pay data by survey job and grade.)

NEED TO IMPROVE DATA COLLECTION PROCESS

Full-scale surveys of private industry pay rates, made every other year, involve personal visits to a statistically determined number of establishments in each survey area. Data collection teams of NAF employees meet with establishment officials to match jobs in the establishments with those specified in standard written descriptions and to

collect pay rates of employees in these jobs. In alternate years they update, usually by telephone, pay rates that were collected in full-scale surveys.

It is essential that collectors match jobs correctly and obtain accurate pay data. As discussed, private sector pay rates are often collected for only a limited number of jobs in a limited number of establishments, and often result in small data bases. The smaller the data base, the more likely that collection errors will lead to inaccurate estimates of industry wages and cause distortions in NAF pay schedules.

The data collection processes of the civil service and NAF blue-collar wage systems are nearly identical. In a June 1975 report, 1/ we addressed the need for improving the civil service blue-collar wage data collection processing including the need for better data collectors. As a result, DOD hired full-time permanent data collectors for appropriated fund blue-collar surveys. A similar need exists in the NAF pay-setting processes--data collectors are not sufficiently qualified, experienced, or trained to effectively perform the difficult and highly judgmental task of job matching.

NAF employees, half recommended by labor and half by management, act as data collectors. CSC selection criteria require the collectors be

- well versed in the occupational content of a wide range of occupations,
- well acquainted with NAF wage administration practices,
- able to approach the collection of wage data objectively and openmindedly,
- able to maintain pleasant relationships in communicating with people, and
- sufficiently balanced and mature to talk intelligently to private industry management on an equal footing.

1/"Improving the Pay Determination Process for Federal Blue-Collar Employees" (FPCD-75-22, June 3, 1975).

Discussions with agency and labor union officials revealed that data collectors were often selected because they could be spared from their jobs, rather than because they met CSC criteria. It can be difficult for NAF activities, particularly small ones, to provide data collectors. In six wage areas we visited very few data collectors had regular jobs in personnel management or any related function. According to a DOD position paper the average data collector is a food service worker.

Most NAF data collectors are inexperienced at the task. They do it usually for 2 weeks every other year and visit very few firms. However, the collectors are expected to know and describe about 60 survey jobs. They must have a working knowledge of NAF pay administration, pay practices peculiar to the industry classes being surveyed, and Bureau of Labor Statistics standard practices and codes. They must be able to work with figures and complete moderately complex computer forms. They are also expected to be objective and to keep confidential the data collected.

Effective training is beneficial to all data collectors and a necessity for collectors with limited qualifications and experience. The local wage survey committee in each area is responsible for training collectors, and with the assistance of the DOD NAF Salary and Wage Fixing Authority's Technical Staff, holds about a 2-day training session just before the survey. Training includes review of survey jobs, practice at interviewing, and filling out wage data collection forms. In view of most data collectors' limitations, the training efforts are minimal. It is hardly enough time to prepare individuals to become qualified data collectors capable of consistently making valid job matches. Committee members and data collectors in some wage areas have indicated a need for additional training.

Because private sector jobs often do not fit the survey description precisely, data collectors must evaluate private sector jobs and decide whether they are close enough to description requirements to justify matching. Because of inexperience and inadequate training, most NAF data collectors do not have the necessary skill and knowledge to make these job-matching decisions which are the foundation for NAF pay schedules.

After data is collected, the local wage survey committee, assisted by the DOD NAF Salary and Wage Fixing Authority, reviews and summarizes the data. The wage data is reviewed for completeness, accuracy of computations, and correct

preparation of survey forms. The effectiveness of these reviews depends on the data collectors' written documentation of their job-matching decisions. Such reviews check only matches made because collectors are not required to provide written explanations of their decisions not to match industry jobs. Although reviewers sometimes question whether all pertinent information is included, they assume that what has been written is factual. In a few cases reviewers have been able to detect that the collectors' reports were inaccurate or estimates rather than actual data. CSC tested and has begun implementing a revisit program for the NAF blue-collar wage system. A revisit program enables reviewers to independently verify the collectors' matching decisions; they are in a better position to find errors in collected wage rates. Another advantage of revisits is that collectors are likely to be more careful if they know their decisions may be checked at the firms. But DOD's Administrative Support and Patron Services systems do not provide for revisits nor does DOD anticipate implementing them because DOD officials believe the time would be better spent making survey design improvements.

NEED TO DEVELOP CRITERIA FOR SELECTING PAY LINES

The average pay for each job is used to develop many trend lines, one of which is selected and converted into Federal pay rates.

A wage trend line passes through an array of wage data--the average private sector pay for each job at each grade level--so that the data above and below the line is in balance. This line becomes the pay line or second step Federal pay rate of each grade. In fitting a trend line to wage survey findings, DOD uses the least squares method of regression analysis. This method is founded on several assumptions, one of which is that the data is relatively normal and has similar standard deviations.

In the civil service blue-collar wage system it is assumed that if data varies from the trend line by more than 10 percent, distortions will be introduced into the pay schedules. This 10-percent limit was also adopted for the NAF pay systems. But, after observing the widely scattered data from the first 30 wage areas, the NAF limit was raised to 20 percent. In the first 2 years of pay surveys, about 10.5 percent of the 223,000 total job matches in 149 wage areas deviated from the norm by more than 20 percent, as shown below.

<u>Pay system</u>	<u>Total unweighted matches</u>	<u>Variations greater than 20% from norm</u>	<u>Percent</u>
NAF blue-collar	81,442	16,929	20.0
Administrative Support	58,605	2,138	3.6
Patron Services	<u>82,606</u>	<u>4,402</u>	5.3
	<u>222,653</u>	<u>23,469</u>	10.5

Factors which may have contributed to the large number of divergent rates include inexperienced or inexpert data collectors, dissimilar survey jobs, the relatively small size of survey establishments, and the few establishments from which survey data was obtained.

When any rates vary more than 20 percent, trend lines are computed both with and without these rates. The divergent rates are analyzed and decisions are made whether to include them in the trend line selected. For the 2-year period ending in calendar year 1975, divergent rates were excluded in about 60 percent of the NAF blue-collar schedules, 50 percent of the Administrative Support schedule, and 45 percent of Patron Services schedules.

In deciding whether to select a line that included divergent rates, DOD considered the number of job matches and number of establishments that contributed to the divergent rate, the amount of the deviation, the reasonableness of the resultant trend line, the estimated abilities of the data collectors, and any other pertinent information.

Generally, nine trend lines were computed, each with different mathematical characteristics, and one was chosen as the pay line. (See app. IV for a description of the various trend lines.) Each line was also computed with and without any rates that varied more than 20 percent, thus providing other pay line alternatives. In addition, Administrative Support and Patron Services schedules have occasionally combined the two trend lines. Using 10 selected wage areas, we computed the pay and percentage differences between the lowest and highest alternative trend line rates at step 2 of selected grades.

<u>NAF pay system</u>	<u>Grade</u>	<u>Hourly pay differences</u>			<u>Percentage differences</u>		
		<u>Ranged</u>		<u>Averaged</u>	<u>Ranged</u>		<u>Averaged</u>
		<u>From</u>	<u>To</u>		<u>From</u>	<u>To</u>	
Blue-collar	NA-1	\$0.07	\$0.54	\$0.21	3.43	24.66	10.46
	NA-5	.18	.50	.32	5.68	20.66	11.71
	NA-10	.45	1.23	.72	10.77	45.72	19.95
Administrative Support	AS-1	.03	.31	.14	1.35	16.15	6.73
	AS-3	.02	.13	.08	.72	11.01	3.73
	AS-7	.05	.36	.16	1.62	10.59	4.46
Patron Service	PS-1	.05	.35	.18	2.25	16.43	9.04
	PS-3	.03	.48	.15	1.21	18.11	6.17
	PS-7	.18	2.58	.63	5.98	72.88	20.93

Thus the choice of a pay line can substantially affect the amount an employee earns.

The best fitting line, as statistically measured, was not always selected. Consideration was also given to comparisons between pay line rates and the weighted survey averages as well as pay rates already in effect. Ultimately, pay line decisions were based on professional judgments.

In 1975 the Federal Prevailing Rate Advisory Committee eliminated five of the nine trend lines, because in some wage areas they changed slope substantially from one survey to the next. If they were used as the pay line, some rates on the pay schedule would have changed drastically. Such significant changes in curved trend lines can reflect statistically unreliable data.

Even without curved trend lines, the remaining alternatives gave many options in choosing pay lines which produce varying pay rates. We believe that CSC and DOD, with the advice of the Federal Prevailing Rate Advisory Committee, should develop criteria to use in selecting NAF pay lines. Such criteria would assure consistent treatment in similar circumstances.

NEED FOR FLEXIBILITY IN CONDUCTING FULL-SCALE PAY SURVEYS

As previously discussed, some private establishments have refused to provide pay data because of frequent pay surveys--not only the NAF surveys but those of various other parties as well. The Congress and agencies concerned should

consider eliminating the requirement for biannual, full-scale pay surveys for the NAF blue-collar, Administrative Support, and Patron Services pay systems. Instead, statistical indicators could be identified or index relationships established in each wage area between NAF and other pay systems such as between the civil service blue-collar wage system and NAF blue-collar system. NAF pay rates could then be adjusted proportionately as the indexed pay systems are adjusted. Originally, NAF pay rates would need to be developed from adequate pay data collected by professional data collectors making full-scale surveys. Once developed, the actual pay levels should be revalidated periodically--perhaps every 5 years.

In December 1975 the President's Panel on Federal Compensation recommended that consideration be given to conducting major Federal pay surveys less frequently and instead make interim schedule adjustments based on an appropriate statistical indicator. The Panel stated that this approach would reduce the average annual cost of surveys, provide more timely results, cause less burden on non-Federal sector employers who must provide pay rate information, and foster better understanding and acceptance of pay comparability by private citizens and Federal employees. We believe similar benefits would accrue to the NAF pay systems.

CONCLUSIONS

To better achieve the policy that Federal pay levels be comparable with private sector levels, improvements are needed in the pay-setting processes. Wage survey designs need to be changed to obtain more representative pay data prevailing in the non-Federal sector on which to base NAF pay. Wage and survey boundaries do not encompass natural labor markets. Certain classes within the prescribed industries are excluded from the wage surveys, and many other firms do not supply pay data primarily because of a high number of establishment refusals.

There is no assurance that jobs which adequately represent the NAF work force are surveyed because no current data is available showing the most populated positions. Minimum data requirements allow pay schedules to be constructed with as few as 25 job matches--matches which may not represent very many survey jobs, all work levels, or very many private sector establishments. The validity of the data used to develop NAF wage schedules could be better assured if more definitive criteria were established for

data adequacy. The criteria regarding the number of matches required to establish a pay line should be increased. The requirements for matches in grade levels should be strengthened.

Additional training of data collectors and improvements in their selection would likely improve the quality of wage information but does not offer the best solution.

A permanent group of carefully selected and thoroughly trained full-time collectors to represent management should be established. Using full-time data collectors to represent management might make it desirable for the unions to also consider upgrading their representatives on the data collection teams. We believe professional data collectors would also increase private industry cooperation and participation in the surveys.

Private sector pay is used to develop multiple, sometimes widely deviating, pay line alternatives. Selecting the pay line to use to develop Federal pay rates depends on professional judgment because there are no clearly defined, mutually agreed upon criteria used consistently from one wage area to the next. We believe such criteria should be developed to insure fair, consistent pay treatment in all circumstances.

The Congress and agencies concerned should also consider requiring less frequent, full-scale NAF pay surveys and allowing pay adjustments in interim years according to statistical indicators or indexed movements in other pay systems.

RECOMMENDATIONS

We recommend that the Chairman, CSC:

- Reevaluate NAF wage and survey areas to establish boundaries covering the natural labor markets in which NAF instrumentalities compete for employees.
- Reevaluate application areas against its criteria so that appropriate pay rates are applied to areas not surveyed.
- Include all industry classes within a prescribed industry in the survey universe unless it can be clearly established that excluded establishments will not provide adequate job matches.

--Require that predominant NAF jobs in each wage area be identified and surveyed. Since tipped jobs are sometimes predominant in an area, develop a method for surveying them.

We recommend that the Secretary of Defense, in coordination with CSC:

--Develop a permanent body of carefully selected and thoroughly trained full-time collectors to represent management in data collection, and explore with employee representatives ways of upgrading the skills of union representatives on data collection teams.

--Increase the participation of private industry establishments in NAF wage surveys by improving the quality of first contacts with officials of the establishments and following up initial refusals to reattempt to gain participation.

--Develop and adhere to more rigorous minimum data requirements.

--Develop definitive criteria for selecting pay lines.

--Develop appropriate statistical indicators or indexing for adjusting pay rates and submit enabling legislation.

MATTERS FOR CONSIDERATION BY THE CONGRESS

Public Law 92-392 differentiated between the wage areas to be established for civil service and NAF blue-collar pay systems by stating that the civil service blue-collar surveys would be conducted in "local wage areas" while NAF surveys would be conducted in the "immediate locality." To some extent the law constrained CSC's establishment of NAF wage area boundaries to areas smaller than the natural labor market in which NAF activities compete for employees. The Congress should delete the immediate locality provision so that wage data collected will be more representative of the area's prevailing market rates.

The Congress should also eliminate the requirement that full-scale blue-collar wage surveys be every 2 years, and permit less frequent full-scale surveys with interim adjustments based on valid statistical indicators or an index relationship with another pay system.

AGENCY COMMENTS

Reevaluating area boundaries and application areas

The Veterans Administration agreed with us that wage areas need to be redefined to cover natural labor markets. The Departments of Defense and Transportation did not agree on the basis that present NAF wage areas are large enough to attract qualified employees--and that NAF wages need only match private wages of the "immediate locality" as now interpreted. CSC believed that under the law it could expand or combine wage areas to better conform to natural labor markets, and planned to examine area definitions with this in mind. However, CSC did not think it was necessary to modify the legislation to make NAF wage areas as large as appropriated fund areas, because NAF recruiting areas are smaller and NAF employees are less widely dispersed.

Nonetheless, from the standpoint of equity it does not appear reasonable that NAF labor markets should be expected to be different from appropriated fund labor markets or that NAF and appropriated fund employees should have different commuting habits. If appropriated fund employees are willing to commute further to their jobs it may be because the pay is higher than for equal work at a NAF activity. Thus the possibility that NAF recruiting areas are smaller than appropriated fund recruiting areas may be a result of the disparity between the two pay systems rather than a cause.

With regard to evaluating application areas against the new criteria of similarity with other areas, DOD felt it was not necessary to schedule such reviews because they could be done as required whenever local survey committees pointed out a need to redefine areas for any reason. However, it could be some time before all application areas come up for review under such a procedure, and therefore a schedule is needed. CSC agreed and said that as a part of its review of area definitions it would review application areas against the new criteria.

Increasing industry coverage

The Civil Service Commission reported that it would examine industry coverage of NAF blue-collar surveys to determine if additional industry classes within the large groupings of wholesale, retail, service, and recreational industries should be added. The other agencies generally opposed expanded coverage to more types of firms than are

now surveyed. The Departments of Defense and Transportation felt additional industries should not be added if they have no relationship with NAF activities. As we pointed out, within the above four industries there are many kinds of firms, called industry classes, that should be covered because they (1) are counterparts of NAF activities or (2) account for significant proportions of local private employment of the kinds and levels found in local NAF employment. The Veterans Administration felt there was no need to include more classes because those now surveyed best related to NAF activities. We believe that there are several more classes that relate equally well with NAF activities, for example liquor stores, beauty shops, barber shops, and motion picture theaters.

Surveying predominant jobs

The agencies agreed there was a lack of assurance that predominant NAF jobs were being surveyed. As a remedy, DOD reported that prior to each full-scale survey, local wage survey committees will be required to determine the kinds of NAF jobs in each area. The information will be used to determine if jobs should be added to the survey. The Commission said it intended to request an occupational inventory from the agencies which will be used to evaluate survey job descriptions and coverage.

With regard to surveying tipped employees DOD and the Commission initiated a study on the proper pay treatment for these employees and expect to submit a proposed pay plan to the Federal Prevailing Rate Advisory Committee for its consideration.

Training full-time data collectors and increasing industry participation

The agencies generally agree with the merits of developing a group of well-trained, full-time data collectors for NAF surveys as has been done for appropriated fund blue-collar surveys. But DOD, as the lead agency which would have to hire and pay the collectors, reported that no nonappropriated funds were available for that purpose. As a result they intend to improve the data collection process with existing resources through increased training and more intensive review of the data. The Commission has also developed training aid and is preparing a training manual for instruction of data collectors. In an effort to improve contacts with private industry, DOD initiated a program

whereby initial contacts with establishments are made by local wage survey committee members who are often better able to explain the purpose of the wage surveys than the data collectors.

These changes should improve the quality of the wage data, but we continue to believe that professional data collectors would be beneficial.

Developing more rigorous minimum data requirements and more definitive criteria for selecting pay lines

DOD reported that it would give full consideration to minimum data requirements during its ongoing studies. The Department did not think it would be desirable to develop more definite criteria for selecting pay lines because there would be a loss of flexibility which could lead to unwarranted pay reductions or increases for some grades from survey to survey. The Commission also believed there could be significant impact on wage schedules but said it would consider developing definitive criteria for selecting pay lines and more rigorous minimum data requirements. It suggested that such changes would be thoroughly tested before implementing them because of the possible significant impact on the wage schedules.

Adjusting pay according to statistical indicators or indexing

The agencies did not think a workable statistical indicator could be developed because the kind of industries surveyed in NAF wage surveys have high employee turnover and fluctuations of work force size. Even so, we do not view these conditions as a serious impediment to the validity of our recommendation. Annual statistics prepared by the Bureau of Labor Statistics show a fairly constant relationship from year to year of wages between industries surveyed under NAF pay systems and industries surveyed under civil service.

Although CSC was not optimistic about developing a usable indicator to set NAF wages, it said it would examine the feasibility of doing so. We believe that such a study should include the possibility of using data gathered by the Bureau of Labor Statistics as a basis for developing an index between NAF and civil service wages.

INDUSTRY CLASSES INCLUDED/EXCLUDEDIN NAF PAY SURVEYSWHOLESALE

<u>Included</u>		<u>Excluded</u>	
5013	Automotive equipment	5012	Automobiles and other motor vehicles
5022	Drugs, drug proprietaries, and druggists' sundries	5014	Tires and tubes
5028	Paints and varnishes	5029	Chemicals and allied products, not elsewhere classified
5033	Piece goods (woven fabrics)	5041	Groceries, General line
5034	Notions and other dry goods	5042	Frozen foods
5036	Men's and boys' clothing and furnishings	5043	Dairy products
5037	Women's, children's, and infants' clothing accessories	5044	Poultry and poultry products
5039	Footwear	5046	Fish and sea foods
5045	Confectionery	5047	Meats and Meat products
5064	Electrical appliances, television and radio sets	5048	Fresh fruits and vegetables
5065	Electronic parts and equipment	5049	Groceries and related products, not elsewhere classified
5072	Hardware	5052	Cotton
5092	Petroleum and petroleum products	5053	Grain
5094	Tobacco and its products	5054	Livestock
5096	Paper and its products	5059	Farm products--raw materials, not elsewhere classified
5097	Furniture and home furnishing		
5099	Wholesalers, not elsewhere classified		

Excluded

5063 Electrical apparatus and equipment, wiring supplies and construction materials

5074 Plumbing and heating equipment and supplies

5077 Air conditions and refrigeration equipment and supplies

5081 Commercial machines and equipment

5082 Construction and mining machinery and equipment

5083 Farm machinery and equipment

5084 Industrial machinery and equipment

5085 Industrial supplies

5086 Professional equipment and supplies

5087 Equipment and supplies for service establishments

5088 Transportation equipment and supplies, except motor vehicles

5089 Machinery, equipment, and supplies, not elsewhere classified

5091 Metals and minerals, not elsewhere classified

5093 Scrap and waste materials

5095 Beer, wine, and distilled alcoholic beverages

5098 Lumber and construction materials

RETAILIncluded

5311 Department stores

5331 Variety stores

5341 Automatic merchandising, machine operators

5541 Gasoline service stations

5812 Eating places

5813 Drinking places (alcoholic beverages)

Excluded

5321 Mail order houses

a/5351 Direct selling establishments

5399 Miscellaneous general merchandise stores

5411 Grocery stores

5421 Meat and fish (sea food) markets

5331 Fruit stores and vegetable markets

5441 Candy, nut, and confectionery stores

5451 Dairy products stores

APPENDIX I

APPENDIX I

Excluded

5463	Retail bakeries--baking and selling	5713	Floor covering stores
5463	Retail bakeries--selling only	5714	Drapery, curtain, and upholstery stores
5499	Miscellaneous food stores	5715	China, glassware, and metalware stores
5511	Motor vehicle dealers (new and used cars)	5719	Miscellaneous home furnishing stores
5521	Motor vehicle dealers (used cars only)	5722	Household appliance stores
5531	Tire, battery, and accessory dealers	5732	Radio and television stores
5591	Boat dealers	5733	Music stores
5592	Household trailer dealers	5912	Drug stores and proprietary stores
5599	Aircraft and automotive dealers not elsewhere classified	5921	Liquor stores
5511	Men's and boys' clothing and furnishings stores	5932	Antique stores
5521	Women's ready-to-wear stores	5933	Secondhand stores
5631	Women's accessory and specialty stores	5942	Book stores
5641	Children's and infants' wear stores	5943	Stationery stores
5651	Family clothing stores	5952	Sporting goods stores
5661	Shoe stores	5953	Bicycle shops
5671	Custom tailors	5962	Hay, grain, and feed stores
5681	Furriers and fur shops	5969	Farm and garden supply stores not elsewhere classified
5699	Miscellaneous apparel and accessory stores	5971	Jewelry stores
5712	Furniture stores	5982	Fuel and ice dealers, except fuel oil dealers and bottled gas dealers

APPENDIX I

APPENDIX I

Excluded

5983 Fuel oil dealers
 5984 Liquefied petroleum gas
 (bottled gas) dealers
 5992 Florists
 5993 Cigar stores and stands
 5994 News dealers and news-
 stands
 5995 Hobby, toy and game
 shops
 5996 Camera and photographic
 supply stores
 5997 Gift, novelty, and
 souvenir shops
 5999 Miscellaneous retail
 stores, not elsewhere
 classified

SERVICE AND RECREATIONIncluded

7011 Hotels, tourist
 courts, and motels
 7933 Bowling alleys
 7947 Golf clubs and
 country clubs

Excluded

7021 Rooming and boarding
 houses
 7031 Trailer parks
a/7032 Sporting and recrea-
 tional camps

7041 Organization hotels and
 lodging houses, on mem-
 bership basis
 7211 Power laundries, family
 and commercial
 7212 Laundries, except power
 7213 Linen supply
 7214 Diaper service
 7215 Coin-operated laundries
 and dry cleaning
 7216 Dry cleaning and dyeing
 plants, except rug
 cleaning
 7217 Rug cleaning and repair-
 ing plants
 7218 Industrial launderers
 7221 Photographic studios,
 including commercial
 photography
 7231 Beauty shops
 7241 Barber shops
 7251 Shoe repair shops, shoe
 shine parlors, and hat
 cleaning shops
 7261 Funeral services and
 crematories
 7271 Garment pressing,
 alteration, and repair
a/7299 Miscellaneous personal
 services
 7311 Advertising agencies

Excluded

7312	Outdoor advertising services	a/7393	Detective agencies and protective services
7313	Radio, television, and publishers' advertising representatives	7394	Equipment rental and leasing services
7319	Miscellaneous advertising	7395	Photofinishing laboratories
7321	Consumer credit reporting agencies, mercantile reporting agencies, and adjustment and collection agencies	7396	Trading stamp services
7331	Direct mail advertising services	7397	Commercial testing laboratories
7332	Blueprinting and photocopying services	7398	Temporary help supply service
7339	Stenographic services; and duplicating services, not elsewhere classified	7399	Business services, not elsewhere classified
7341	Window cleaning	7512	Passenger car rental and leasing, without drivers
7342	Disinfecting and exterminating services	7513	Truck rental and leasing, without drivers
7349	Miscellaneous services to dwellings and other buildings	7519	Utility and house trailer rental
7351	News syndicates	7523	Parking lots
7361	Private employment agencies	7525	Parking structures
7391	Commercial research and development laboratories	7631	Top and body repair shops
7392	Business, management, administrative and consulting services	7534	Tire retreading and repair shops
		7535	Paint shops
		7538	General automobile repair shops

Excluded

7539	Automobile repair shops, not elsewhere classified	7816	Motion picture film exchanges
7542	Automobile laundries	7817	Film or tape distribution for television
7549	Automobile services, except repair and laundries	7818	Services allied to motion picture distribution
7622	Radio and television repair shops	7821	Motion picture service industries
7623	Refrigerator service and repair shops	7832	Motion picture theaters, except drive-in
7629	Electrical repair shops, not elsewhere classified	7833	Drive-in motion picture theaters
7631	Watch, clock, and jewelry repair	7911	Dance halls, studios, and schools
7641	Reupholstery and furniture repair	7922	Theatrical produceres (except motion picture) and miscellaneous theatrical services
7692	Welding repair	7929	Bands, orchestras, actors, and other entertainers and entertainment groups
7694	Armature rewinding shops	7932	Billiard and pool establishments
7699	Repair shops and related services, not elsewhere classified	7941	Professional sports clubs, athletic fields, arenas, and sports promoters
7813	Motion picture production, except for television	7942	Public golf courses
7814	Motion picture and tape production for television	7943	Coin-operated amusement devices
7815	Production of still and slide films	7945	Skating rinks
		7946	Amusement parks

Excluded

7948	Race track operation, including racing stables	8231	Libraries and information centers
<u>a/7949</u>	Amusement and recreation services, not elsewhere classified	8241	Correspondence schools
8011	Offices of physicians and surgeons	8242	Vocational schools, except vocational high schools
8021	Offices of dentists and dental surgeons	8299	Schools and educational services, not elsewhere classified
8031	Offices of osteopathic physicians	8411	Museums and art galleries
8041	Offices of chiropractors	8421	Arboreta, botanical and zoological gardens
8061	Hospitals	8611	Business associations
8071	Medical laboratories	8621	Professional membership organizations
8072	Dental laboratories	8631	Labor unions and similar labor organizations
8092	Sanatoria, and convalescent and rest homes	8641	Civic, social, and fraternal associations
8099	Health and allied services, not elsewhere classified	8651	Political organizations
8111	Legal services	8661	Religious organizations
<u>a/8211</u>	Elementary and secondary schools	8671	Charitable organizations
8221	Colleges, universities, and professional schools	8699	Nonprofit membership organizations, not elsewhere classified
8222	Junior colleges and technical institutes	8811	Private households
		8911	Engineering and architectural services

Excluded

8921 Nonprofit education and
scientific research
agencies

8999 Services, not else-
where classified

8931 Accounting, auditing, and
bookkeeping services

FINANCE, INSURANCE, AND REAL ESTATE

- a/ 6022 State banks, members of the Federal Reserve System
- a/ 6023 State banks, not members of the Federal Reserve System, insured by the Federal Deposit Insurance Corporation
- a/ 6024 State banks, not members of the Federal Reserve System, not insured by the Federal Deposit Insurance Corporation
- a/ 6025 National banks, members of the Federal Reserve System
- a/ 6026 National banks, not members of the Federal Reserve System, insured by the Federal Deposit Insurance Corporation
- a/ 6027 National banks, not insured by the Federal Deposit Insurance Corporation
- a/ 6028 Unincorporated private banks, not insured by the Federal Deposit Insurance Corporation
- a/ 6312 Stock life insurance companies
- a/ 6313 Mutual life insurance companies
- a/ 6319 Life insurance carriers, not elsewhere classified
- a/ 6332 Stock fire, marine, and casualty insurance companies
- a/ 6333 Mutual fire, marine, and casualty insurance companies
- a/ 6339 Fire, marine, and casualty insurance carriers, not elsewhere classified

a/ Industry classes included in Administrative Support and Patron Services but excluded in NAF blue-collar pay surveys.

DISTRIBUTION OF 1974-75
JOB MATCHES BY SURVEY JOB

NAF BLUE-COLLAR WAGE SYSTEM

<u>Title</u>	<u>Grade</u>	<u>Percent of all matches made</u>
001 Janitor (light)	1	16.4
002 Food service worker	1	14.9
003 Service station attendant	1	0.8
004 Food service worker	2	8.3
005 Janitor	2	7.4
006 Laborer (light)	2	2.3
007 Laborer (heavy)	3	2.3
008 Service station attendant	3	3.7
009 Stock handler	4	7.7
029 Groundskeeper (note a)	4	0.4
030 Grill attendant (note a)	4	0.4
010 Cook	5	11.8
011 Materials handling equipment operator	5	0.6
012 Warehouseman	5	5.5
013 Service station attendant	5	2.1
014 Truck driver (light)	5	1.6
015 Tractor operator	6	0.5
016 Truck driver (medium)	6	1.8
017 Bowling equipment mechanic	7	0.4
018 Truck driver (heavy)	7	1.2
025 Building maintenance worker (note a)	7	0.3
019 Vending machine worker	8	0.5
020 Cook	8	5.4
050 Truck driver (trailer) (note b)	8	0.0
026 Building maintenance worker (note a)	8	0.1
027 Air conditioning equipment mechanic (note a)	8	0.0
021 Carpenter	9	0.4
022 Painter	9	0.3
023 Automotive mechanic	10	2.6
024 Electrician	10	0.3
028 Air conditioning equipment mechanic (note a)	10	<u>0.0</u>
		100.0

a/Added August 1975.

b/Optional Survey Job added May 28, 1976.

ADMINISTRATIVE SUPPORT PAY SYSTEM

<u>Title</u>	<u>Grade</u>	<u>Percent of all matches made</u>
101 File clerk	1	5.9
102 Coding clerk	2	1.5
103 Clerk typist	3	9.9
104 General clerk	3	16.1
105 Key punch operator	4	6.1
106 Cashier	4	27.1
107 Personnel clerk	4	1.0
108 Accounting clerk	5	10.5
109 Procurement clerk	5	1.5
110 Data control clerk	5	1.4
111 Payroll clerk	5	1.6
112 Secretary	6	12.1
113 Personnel clerk	6	0.8
114 Secretary	7	4.7
Total		<u>a/100.2</u>

PATRON SERVICES PAY SYSTEM

201 Sales clerk	1	10.8
202 Cashier - checker	2	8.5
203 Recreation attendant	2	0.4
204 Child care attendant	2	0.8
215 Sales clerk	2	35.4
205 Sales clerk	3	22.8
206 Desk clerk	3	3.1
207 Security guard	3	9.9
208 Customer services clerk	4	1.7
209 Sales clerk	5	4.3
210 Display artist	5	1.0
211 Mobile sales clerk	5	0.1
216 Store detective	5	0.4
212 Customer services clerk	6	0.5
213 Recreation assistant	7	0.1
214 Display artist	7	0.5
Total		<u>a/100.3</u>

a/Percentages do not add to 100 due to rounding.

NUMBER OF 1974-75 NAF SURVEY JOB MATCHESBY WAGE AREA FOR EACH PAY SYSTEM

Adequate unweighted job matches	Blue-collar wage area		Administrative Support wage areas		Patron Services wage area	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
0 to 25	0	0.0	2	1.4	0	0.0
26 to 50	1	0.7	1	0.7	0	0.0
51 to 75	0	0.0	11	7.5	3	2.0
76 to 100	5	3.4	13	8.8	7	4.8
101 to 125	5	3.4	11	7.5	7	4.8
126 to 150	8	5.4	10	6.8	11	7.5
151 to 175	13	8.8	12	8.2	12	8.2
176 to 200	11	7.4	8	5.4	7	4.8
201 to 300	30	20.3	15	10.2	21	14.3
301 to 400	13	8.8	15	10.2	16	10.9
401 to 600	20	13.5	16	10.9	20	13.6
601 to 800	11	7.4	12	8.2	19	12.9
801 to 1000	6	4.1	3	2.0	5	3.4
1001 to 2000	22	14.9	13	8.8	12	8.2
over 2000	<u>3</u>	<u>2.0</u>	<u>5</u>	<u>3.4</u>	<u>7</u>	<u>4.8</u>
Total	<u>a/148</u>	<u>b/100.1</u>	<u>c/147</u>	<u>100.0</u>	<u>c/147</u>	<u>b/100.2</u>

a/There are currently 145 wage areas.

b/Total percentages do not equal 100 due to rounding.

c/Data for one wage area was not provided.

TREND LINES NORMALLYCOMPUTED FOR EACH WAGE SURVEY

1. A linear unit line which gives equal weight to each survey job weighted average and provides a straight unit line.
2. A linear frequency line which weights each survey job average by the number of employees matched to the job in the survey and provides a straight frequency line.
3. An exponential unit line which gives equal weight to each survey job weighted average and provides a curved unit line. 1/
4. An exponential frequency line which weights each survey job average by the number of employees matched to the job in the survey and provides a curved frequency line. 1/
5. A line midway between the linear unit and linear frequency lines.
6. A line midway between the exponential unit and exponential frequency lines. 1/
7. A line midway between the linear unit and exponential frequency lines. 1/
8. A line midway between the exponential unit and linear frequency lines. 1/
9. A segmented line.

1/Lines eliminated from consideration by the Federal Prevailing Rate Advisory Committee in 1975 because they gave fluctuating results from one survey to the next.



UNITED STATES CIVIL SERVICE COMMISSION

WASHINGTON, D.C. 20415

IN REPLY PLEASE REFER TO

YOUR REFERENCE

Mr. H.L. Krieger, Director
 Federal Personnel and Compensation
 Division
 U.S. General Accounting Office
 Washington, D.C. 20548

SEP 7 1977

Dear Mr. Krieger:

Thank you for the opportunity to comment on the draft of your report "Improving the Methods of Setting Pay for Nonappropriated Fund Employees." We appreciate the professional manner in which the review was conducted and the report compiled. Your findings and recommendations relating to the nonappropriated fund (NAF) employees covered by the Federal Wage System will be of great value to us in executing our responsibility for maintaining and improving the NAF Federal Wage System.

We are restricting our comments to your findings on the NAF Federal Wage System, applicable to craft, trade, and laboring employees, since this is the only NAF pay system over which the Commission has jurisdiction. As you know, the NAF Federal Wage System was established in early 1973, as a consequence of enactment of Public Law 92-392, dated August 19, 1972. Although the system parallels the appropriated fund Federal Wage System to a large extent, there are certain differences between the two systems. In establishing the basic policies of the NAF Federal Wage System, the Commission's approach was that the system should be the same as the appropriated fund system except where differences are required by law, or dictated by circumstances.

The two major differences between the NAF and appropriated fund Federal Wage Systems are required by law. The law restricts NAF wage areas to the immediate locality and NAF wage survey coverage to wholesale, retail, service, and recreational establishments. No such restrictions are placed on the appropriated fund Federal Wage System. The legislated differences between the NAF and appropriated fund wage systems were recommended by the Executive branch and based upon the belief that the labor markets and recruitment areas for NAF employees generally were more restricted for NAF employees than for appropriated fund employees because of the differences in the nature of their employment. In our estimation, the four years of operation of the NAF wage system have shown those assumptions to be true.

The NAF Federal Wage System is now fully operational and the Commission is planning to begin an overall review of the system. We are still in the early planning stages and are examining priorities and availability of resources. We have not yet determined when the review will begin or how long it will take to complete it.

Your report recommends that the Commission reevaluate NAF wage and survey areas with the objective of establishing boundaries to cover natural labor markets. Working within the context of the legal requirement that NAF wage areas be restricted to the immediate locality, we did attempt to include the entire labor market for an NAF activity within a single wage area when we originally defined them. As part of our review of the NAF Federal Wage System, we will examine the wage area definitions. Now that surveys have been conducted in all of the NAF wage areas, we will be better able to obtain the information necessary to determine whether the areas are defined properly. The present law will permit us to expand or combine wage areas if our review shows that we have divided or excluded part of the labor market for NAF employees in any wage areas.

We do not believe it would be necessary or proper to seek legislation which would permit the establishment of wage areas as large as appropriated fund wage areas, since NAF recruitment areas are typically smaller than appropriated fund recruitment areas and NAF employees are not as widely dispersed as appropriated fund employees.

As a part of our review of NAF wage areas, we will incorporate your second suggestion that we review the areas of application against our current criteria for defining them. As you are aware, the criteria for assigning areas of application to wage survey areas have been revised since the areas were first defined. We have redefined a number of NAF wage areas since the new criteria were established and have utilized the new criteria in determining the placement of areas of application.

We do agree that we should examine the industry coverage of NAF wage surveys within the context of the law. We will study this aspect of the wage surveys as a part of our system review, to determine whether any additional industries within the larger groupings of wholesale, retail, service, and recreational industries should be added to the required survey industries.

Regarding your comments concerning the identification of predominant NAF occupations in each area, the Commission intends to request an occupational inventory from the agencies in the near future. After reviewing this inventory, we believe we will be in a better position to review and recommend changes in the survey job descriptions and coverage.

The Commission is aware that a large number of NAF wage employees are compensated, in part, by tips. As you have found, practices for paying these employees are not uniform. Some of the tipped employees are paid

from the regular wage schedules applicable to the bulk of the NAF wage employees in the areas, and others are paid from varying agency special schedules. The reason for the variations in the pay practices for tipped employees is that the Commission has not yet completed its study which is necessary to establish a uniform pay plan for them. As an interim measure, we have authorized the agencies to continue paying their tipped employees as they did prior to enactment of Public Law 92-392.

We plan to complete our study of tipped employees in 1978 and submit a proposed pay plan to the Federal Prevailing Rate Advisory Committee for its consideration. As a part of our study, we will examine the feasibility and desirability of surveying tipped employee positions in private industry.

We agree with the concept and purpose of your recommendation that the data collection process be improved by the development of permanent full-time data collectors to represent management in the NAF wage surveys. However, we believe that the lead agency which would be responsible for hiring and compensating professional management data collectors should determine the feasibility of doing so. The Commission has, however, developed training aids for use in instructing both labor and management data collectors. We developed a film depicting a data collection interview as well as slides illustrating the survey jobs. We are currently developing a training manual for use by the lead agency in instructing data collectors.

In a further effort to improve the survey contacts with private industry, the Department of Defense has recently initiated a program whereby the initial contacts with establishments are made by the local wage survey committee members, who are often better able to explain the purpose of the wage surveys than the data collectors.

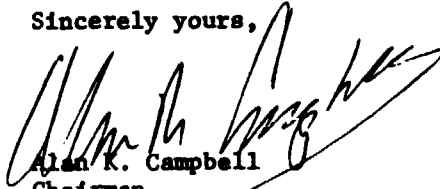
As resources become available, we will consider your recommendations to develop definitive criteria for selecting pay lines and to develop and adhere to more rigorous minimum data requirements. It will be necessary to proceed cautiously with these studies, and probably institute a prolonged testing phase, because of the possibility of significant impact on the wage schedules.

We will examine the feasibility of developing appropriate statistical indicators for adjusting NAF wage schedules in the years between full-scale wage surveys. However, we are uncertain of the possibility of success. Experience has shown that the industries surveyed in NAF wage surveys are very unstable in employment. The establishments surveyed often experience considerable employee turnover as well as fluctuations in size from one survey to the next. These characteristics, among others,

have created difficulties in our collection of data in wage change surveys, and we believe would make the development of an adequate statistical indicator difficult, if not impossible. We believe it may be more productive to modify our wage change survey requirements to facilitate the collection of data. Therefore, we will examine the wage change survey process at the same time as we review the feasibility of developing a statistical indicator.

For your information, members of our respective staffs have discussed minor corrections needed to make the report technically accurate. Thank you, once again, for the opportunity to comment on your draft report. I hope our views will be useful to you.

Sincerely yours,



Alan K. Campbell
Chairman

GAO note: The minor technical corrections were made in the final report.



MANPOWER,
RESERVE AFFAIRS
AND LOGISTICS

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

2 SEP 1977

Mr. H. L. Krieger, Director
Federal Personnel and
Compensation Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Krieger:

This is in reply to your letter to the Secretary of Defense regarding your draft report dated June 17, 1977, on "Improving the Methods of Setting Pay for Nonappropriated Fund Employees" (OSD Case #4649).

We have some general comments which follow, as well as specific comments which are included in the attachment.

Nonappropriated fund activities, at the direction of the Congress, must be largely sustained by their own revenues. This requirement places them in a different category from other Governmental activities that are paid from funds appropriated by the Congress. Congress recognized this difference in title 5, United States Code, section 2105(c) which exempted nonappropriated fund employees from certain laws administered by the Civil Service Commission. The Congress recognized this difference again in 1972 when PL 92-392 was passed containing specific requirements to restrict area definitions to the "immediate locality" and establishment coverage to "wholesale, retail, service, and recreation."

From these actions we conclude that the Congress agreed that the differences are appropriate. We therefore recommend that the final report point out the need for the differences instead of raising the question of differences as an issue.

(See GAO note 1, p. 63.)

We recognize that all problems associated with the transition to a single pay system for nonappropriated fund employees have not been resolved, and we welcome your recommendations for improvement of the system. Now that it is finally operational we expect to be able to concentrate more on its improvement and your recommendations will be of inestimable value to us in these efforts. We would hope, however, that your final report will be changed to reflect the views expressed in our comments.

The opportunity to comment is appreciated.

Sincerely,



ROBERT B. PIRIE, JR.
Principal Deputy Assistant Secretary
of Defense (MRA&L)

Attachment

GENERAL COMMENTSRecommendations to the Congress: (Pages ii and 22 of your Draft Report).

"With respect to the Civil Service pay system, GAO recommends that the Congress consider prior GAO recommendations on improving the methods for setting blue collar and white collar pay."

The Department of Defense concurs in this recommendation insofar as blue collar workers are concerned, fully supporting the blue collar legislative reform proposal which was sent to the Congress by the Civil Service Commission on January 17, 1977, and which was strongly endorsed by President Carter in his 1978 budget message to the Congress.

On the white collar side we will support also any legislative proposals developed by the Civil Service Commission which produce compensation practices more in line with those in the non-Federal sector.

Recommendation to the Secretary of Defense:(Page 22 of your Draft Report).

"That the Secretary revise the Administrative Support and Patron Services pay systems so that the pay ranges more closely approximate prevailing practice in the private sector."

We concur in your conclusion that NAF white collar pay ranges should follow private sector pay practices. However, we have no data to support the 30% range you indicate as private sector practice. We do note, however, that it is the same percentage range contained in the General Schedule compensation schedule. Any change, must therefore await an intensive study of comparable private industry practice. It is our intention to begin planning for such a study as soon as time and work load considerations permit. (See GAO note 2, p. 63.)

Your recommendations to the Chairman, Civil Service Commission:
(Pages 47 and 48 of your Draft Report).

"Reevaluate the NAF wage and survey areas with the objective of establishing the boundaries to cover the natural labor markets in which NAF instrumentalities compete for employees." As you state in the "Digest" of the Draft and in your statement of matters for consideration of the Congress on page 48, this change would require a change in law since the law has an "immediate locality" provision.

We do not concur in this recommendation. The present limitation of area definitions to "immediate locality" recognizes the source of recruitment for nonappropriated fund employees which is the "immediate locality." Under present area definition criteria the resulting wage schedules permit us to recruit and retain fully qualified employees. These criteria also insure that nonappropriated fund employees receive wages which on the average are equal to those prevailing in private wholesale, retail, service and recreation establishments in the "immediate locality." Such treatment is not only fair and equitable to our employees but is completely in accord with a "prevailing rate" principle.

"Require the Federal Prevailing Rate Advisory Committee, on a scheduled basis, to reevaluate application areas against its criteria so that appropriate pay rates are imported into areas not surveyed."

The mechanism is already established to carry out this recommendation when there are indications that changes should be made. However, we fail to see the need for a scheduled review of all area definitions by the FPRAC, especially when that committee must consider many other more pressing problems. As the lead agency, we will remind local survey committees of their responsibilities in assessing any need for area redefinitions. If sufficient evidence indicates such a need, the local committees will then submit appropriate recommendations for disposition.

"Include all industry classes within the prescribed industries in the survey universe unless it can be clearly established that excluded establishments will not provide adequate job matches."

Present regulations require that certain industries be surveyed with certainty and allow for others to be surveyed when a need exists. Such a need has been and should continue to be based on a requirement that the added industry account for significant proportions of local private employment of the kinds and levels found in local NAF employment. To broaden the coverage to include industries which have no NAF counterparts as you suggest would be in conflict with the principle of comparability.

"Require that predominant NAF jobs in each wage area be identified and surveyed. Since tipped jobs are sometimes predominant, develop a methodology for surveying them."

We agree with the need for surveying like kinds of jobs in the private sector. The only way to be assured of this is to have up-to-date and accurate data regarding the kinds of jobs we have in each area where we conduct NAF surveys. Accordingly, we will task local wage survey committees to provide this information to the Technical Staff of the DoD Wage Fixing Authority before each full scale survey so that significant NAF jobs can be added, provided there is reasonable assurance that counterparts can be found in the private sector.

With regard to surveying tipped employees, OSD, the Military Departments, and the Civil Service Commission are now engaged in a study of the proper pay treatment for tipped employees under the Federal Wage System. Upon completion of the study the matter will be considered by the FPRAC. Until a final decision is made, tipped categories cannot be included in regular survey samples. Even then, we point out it is most difficult to survey earnings of tipped employees with any degree of reliability.

Your recommendation that the Secretary of Defense in coordination with the Civil Service Commission and the Federal Prevailing Rate Advisory Committee:

"develop a permanent body of carefully selected and thoroughly trained full time collectors to represent management in the data collection process, and explore with employee representatives ways of upgrading the skills of union representatives on data collection teams."

The Department of Defense had adopted a similar recommendation on permanent full time data collectors for appropriated fund wage surveys. We concur that the suggestion has merit also for nonappropriated fund surveys. However, the added nonappropriated fund resources needed to pay salaries of full time data collectors are simply not available nor is the prospect favorable for such monies becoming available in the near future.

We will, of course, continue to make every effort through increased training of data collectors and more intensive reviews of data to improve the quality of wage surveys, within our existing resources. Upon issuance of your final report we will pursue the matter of improving the quality of data collectors nominated by labor organizations with the national offices of those organizations.

"Increase the participation of private establishments in NAF wage surveys by such means as improving the quality of first contacts with officials of private industry establishments and following up initial establishment refusals to reattempt to gain participation."

The recommendation is consistent with our program objectives. Again, we will do everything possible within our existing resources to achieve this objective.

"Develop and adhere to more rigorous minimum data requirements."

Any minimum requirement for survey adequacy is of course a judgment factor. Therefore, this is a matter which must constantly be under study.

With 92% of NAF Trades and Crafts employees in grades 1-5, predominantly in food and beverage service occupations, our surveys would not be valid unless lower level jobs, particularly food service jobs, have a significant weight in the total survey.

We continue to strive for system improvements and will certainly give full consideration to this particular recommendation in our studies.

"Develop definitive criteria for selecting pay lines."

Based on our experiences in selecting wage lines of "best fit" we do not believe it is either practical or desirable to develop such criteria. In most cases both labor and management have reservations about any departures from the normal lines, any of which are acceptable. There are times, however, when prudent judgment requires deviation from the line which would normally be selected. Establishment of mandatory rigid criteria for line selection would result in curtailing this judgmental process and the pay line selected might well result in unwarranted pay reductions or pay increases for some pay grades. The end result would be costly either in personnel turbulence or in actual dollars. The principal reason the Federal Wage System has survived the test of time lies in its flexibility, particularly in the judgments which are provided in the determination of appropriate wages which employees under the system will be paid.

"Develop appropriate statistical indicators for adjusting pay rates and submit enabling legislation."

This recommendation assumes a degree of sophistication in the personnel practices of wholesale, retail, service and recreation establishments which simply does not exist. These private sector activities experience considerable turnover and the size of their organizations change because of seasonal and other factors. Therefore, matches are less likely to remain constant when a longer period of time passes between surveys. Full scale surveys conducted upon a stable establishment universe measure these kinds of changes with reasonable accuracy.

The Administration's proposed wage board reform legislation would require us to conduct such full scale surveys only every third year, with interim wage change surveys conducted in the intervening years. Because of the fluctuation in employment in wholesale, retail, service and recreation establishments, however, this new authority would be of minimal value for nonappropriated fund surveys, if we are to adhere to a prevailing rate principle.

We have difficulty in relating statistical indicators to a workable means of adjusting appropriated fund pay schedules where private sector pay systems are, for the most part, systematized. The difficulties in developing and implementing a system for adjusting nonappropriated fund schedules by pay indicators where few such systems exist would be insurmountable.

(See GAO note 1, p. 63.)

Page 13 - Line 10, states: "An NAF wage area is simply one or more counties having NAF employees." This is misleading since certain conditions must be met. These conditions are (1) enough NAF wage employees to make a survey worthwhile and (2) sufficient private employment within the survey area to provide adequate data for an NAF wage schedule.

While these conditions are discussed in the next paragraph of the report, the oversimplification without inclusion of the conditions gives the false impression that an NAF area is a county irrespective of whether adequate private sector data are available for wage fixing. The paragraph should, therefore, be revised to correct this false impression.

Page 14

The index comparison as presented draws an unfair comparison of pay relationships. The index shows, of course, that wholesale, retail and service industries pay less than does the manufacturing industry. Thus, existing Federal pay relationships are proper under a prevailing rate comparability system and are supported by it. Therefore, we would urge that it be used in support of present practice rather than merely as an illustration of differences in pay relationships from which the conclusion drawn by the reader is that because the index for the industries in question are low perhaps our pay system is suspect.

The same page of the report suggests that the use of a lower total establishment employment figure for NAF surveys than that for appropriated fund surveys, is wrong. It should be pointed out that most private establishments in industries which are counterpart to NAF activities are smaller than the private establishments in manufacturing industries. So too are NAF activities generally smaller than the Department's industrial activities. We therefore consider that the establishment size differences are proper.

Page 15: The comparison between commissary store rates and exchange rates is not valid, if we are to conform to the legal requirement of paying prevailing rates. The counterparts in the private sector to commissary stores are commercial grocery stores, which are high paying in contrast to the lower paying counterparts to exchanges which are retail dry goods stores or department stores. Federal pay practice, which provides for differing rates in the two situations is consistent with this private sector practice.

(See GAO note 1, below.)

- GAO note 1: Deleted material relates to matters not included in the final report.
- 2: The 30-percent range referred to is based on private sector salary studies done by the American Management Association.
 - 3: Page numbers referred to may not correspond to those in the final report.



OFFICE OF THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

ASSISTANT SECRETARY
FOR ADMINISTRATION

August 30, 1977

Mr. Henry Eschwege
Director
Community and Economic Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

We have enclosed two copies of our reply to the General Accounting Office draft report "Improving the Methods of Setting Pay for Non-Appropriated Fund Employees." Please let us know if we can assist you further.

Sincerely,

William B. Davis
for Edward W. Scott, Jr.

Enclosures

DEPARTMENT OF TRANSPORTATION REPLYTOGAO DRAFT REPORT OF 23 JUNE 77ONIMPROVING THE METHODS OF SETTING PAY
FOR NON-APPROPRIATED FUND EMPLOYEESSUMMARY OF GAO FINDINGS AND RECOMMENDATIONS

1. With respect to the civil service pay systems GAO recommends that the Congress consider prior GAO recommendations on improving the methods for setting blue and white collar pay.
2. For NAF pay systems GAO recommends that Congress modify the authorizing legislation in order to expand wage areas to the natural geographic labor markets in which NAF Activities compete for employees.
3. GAO also recommends that legislation be modified to permit full scale surveys to be made less often than every two years. Interim annual wage changes to be based upon economic indicators.
4. Finally, GAO recommends that the Civil Service Commission and employing agencies:
 - a. Include more firms and types of firms in the NAF surveys.
 - b. Assure that jobs surveyed represent predominate NAF jobs at various grades.
 - c. Conduct less frequent but more thorough wage surveys using professional data collectors.
 - d. Develop criteria for translating private sector pay into NAF pay in a consistent manner.
 - e. Adjust certain NAF pay systems so that their pay ranges more closely approximate prevailing practice in the private sector.

POSITION STATEMENT

1. Non-appropriated fund employees work in activities which provide goods and services to military personnel and a source of funds for the morale, welfare and recreation programs of the Armed Forces. As is true with any other business enterprise, NAF activities are concerned with fiscal stability and the recruiting/retention of qualified employees. Therefore, we believe that the two major areas of consideration regarding NAF pay systems must be:

a. To ensure that NAF employees receive fair, equitable salaries that are comparable to the ones received by their counterparts in the commercial sector, and;

b. To ensure that the NAF pay systems are not structured in such a manner that would impair the financial stability of the Non-Appropriated Fund Instrumentalities.

2. The Department of Transportation--through the U. S. Coast Guard--has a very small number of NAF employees in relation to the Department of Defense NAFI's. Therefore in most cases, we are simply a user of the NAF pay systems which the Civil Service Commission and the Department of Defense control and manage. They provide the technical expertise and manpower used in establishing wage areas, conducting wage surveys and establishing wage schedules. Accordingly, we believe that you will receive a more valuable "technical" input from CSC and DOD in these areas.

3. Specific comments on the recommendations--as previously listed--are as follows:

Recommendation #1. We concur.

Recommendation #2. We do not concur with this recommendation. The "immediate locality" provision of P.L. 92-392 adequately represents the need to conduct wage surveys in the area in which NAFI's will normally recruit their employees. In most cases, we believe that this system provides NAF employees with a comparable salary. In those few instances where the surveys do not appear to give NAF employees a comparable salary, we believe that it would be profitable for CSC and DOD to deal with these situations on an ad hoc basis, versus restructuring the entire wage survey system.

Recommendation #3. Concur in principle. On the surface it would appear that conducting full-scale wage surveys on a triennial versus biennial cycle would result in a considerable savings to the Government. Our research with DOD, however, raises a serious doubt in our minds as to whether surveys on this basis would provide NAF employees with a true pay comparability with their private sector counterparts.


Recommendation #4a. We concur with including more firms in the wage surveys, but do not concur with expanding the types of firms surveyed. P.L. 92-392 requires that surveys be conducted at "wholesale, retail, service and recreation" establishments. As these activities most closely represent the types of business we have in our NAFI's, we feel that they should continue to be the only establishments surveyed. To provide a true NAF pay comparability, however, as many of these establishments as possible should be surveyed.

Recommendation #4b. We concur with this recommendation.

Recommendation #4c. As with recommendation #3, we concur in principle with conducting wage surveys on a less frequent basis--provided that a NAF pay comparability can be maintained. We also concur with the utilization of professional data collectors, at least to the extent that the additional costs involved do not outweigh the benefits gained.

Recommendation #4d. We concur with this recommendation.

Recommendation #4e. We concur with this recommendation.



W. H. STEWART
Captain, U.S. Coast Guard
Acting Chief of Staff



VETERANS ADMINISTRATION
OFFICE OF THE ADMINISTRATOR OF VETERANS AFFAIRS
WASHINGTON, D.C. 20420

SEPTEMBER 7 - 1977

Mr. Gregory J. Ahart
Director, Human Resources Division
U. S. General Accounting Office
441 G. Street, N.W.
Washington, DC 20548

Dear Mr. Ahart:

We have reviewed the multi-agency draft report, "Improving the Methods of Setting Pay for Nonappropriated Fund Employees," sent us for comments on June 17, 1977.

The Veterans Administration employs approximately 1,600 Veterans Canteen Service (VCS) blue collar workers who are subject to the provisions of Federal Personnel Manual Supplement 532-2, Federal Wage System. The Veterans Canteen Service employs an additional 1,600 workers who are exempt from this system and are paid in accordance with agency policy.

Enabling legislation recognized the commercial nature of the VCS and its need for a work force exempt from civil service laws and the Classification Act of 1949. Wages of canteen hourly employees have been based on prevailing rates paid to workers engaged in like-type work by private sector employers in the community. The Federal Wage System as it applies to nonappropriated fund (NAF) wage employees perpetuates this practice. The recommendations contained in the report tend to strengthen the wage data collection process and provide more valid bases for the determination of true prevailing rates.

The VA has no direct responsibility for wage surveys and pay-fixing under the NAF system. This is accomplished entirely by the Department of Defense. Nonetheless, since VA is directly impacted by the system's requirements, we have a strong concern regarding certain existing policies and procedures of the NAF Wage System.

We agree that the Congress should reconsider the existing statutory provision for a five-step rate system. Civil Service Commission studies on step-rate practices in the private sector do not support the use of five steps. The principal practice used in the industries surveyed under the nonappropriated system should be reflected for Federal NAF employees. The fixed payline (step 2) should not be continued; rather, this payline should be based on the relationship to a point in the federal pay range which reflects average pay in the private sector.

Mr. Gregory J. Ahart
Director, Human Resources Division
U. S. General Accounting Office

We agree with the recommendation that night shift differentials should be based on the prevailing practices followed by private industry. In surveys conducted before PL 92-392 was enacted in 1972, we found differentials were usually paid on a cents-per-hour basis rather than the 7 1/2% and 10% now required by law.

We agree that state and local governments should be included in NAF surveys, and that full scale surveys be made every third year.

We agree that Administrative Support and Patron Services pay ranges should reflect private practices, but we are not certain that the so-called white collar range in the industries now surveyed would be 30% as reflected in the National Survey of Professional, Administrative, Technical and Clerical Pay conducted by the Bureau of Labor Statistics. This, we feel, would require further study before a definitive conclusion could be reached. (See GAO note, p. 70.)

We agree that there is a need to broaden presently defined areas to cover normal labor markets. It does not seem reasonable that NAF employees would have more restricted commuting habits than appropriated fund employees. It is appropriate for the Congress to consider legislative change to remove the "immediate locality" requirement of current law.

An indexing method should be established in NAF areas with relatively low population--both federal and private--to produce pay rates which more closely reflect prevailing rates. A number of such areas, now too small to qualify as separate wage areas, have pay rates extended from larger metropolitan areas. This often results in overcompensating NAF employees in the smaller areas.

We agree that survey jobs used to sample private establishments should be representative of those among NAF employees. Generally, we feel the jobs presently used fulfill this requirement. However, some should be reexamined to see if they are representative of NAF employment. One in particular, air conditioning equipment mechanic, was added as a required survey job several years after the system was initially implemented, in order to establish greater representation of private sector wages for a higher grade skill level. As we recall, this occupation was represented by fewer than 100 NAF employees. We believe it should not be included because private industry pay overcompensates for this type of position and distorts pay in the higher grade levels of the NAF system. There is a definite need to conduct a comprehensive review of NAF positions and establish survey jobs commensurate with the kinds most prevalent in the NAF instrumentalities.

Mr. Gregory J. Ahart
Director, Human Resources Division
U. S. General Accounting Office

We do not agree with the recommendation to include all industry classes within the prescribed industries surveyed, unless it can be clearly demonstrated that all are representative of activities in NAF functions. At the time the NAF system was under development, considerable effort was devoted to the determination of whether all classes in wholesale trade, retail trade, service and recreational industries should be included in surveys. It was determined that the classes now surveyed best related to classes of activities in NAF instrumentalities. Therefore, it would be best to fully re-examine the relationship of NAF functions with those in the private sector before effecting changes in the present coverage.

We appreciate this opportunity to comment on the improvements needed in the pay-setting processes for nonappropriated fund employees.

Sincerely,



MAX CLELAND
Administrator

GAO note: The 30-percent range referred to is based on private sector salary studies done by the American Management Association.

PRINCIPAL OFFICIALS
RESPONSIBLE FOR ADMINISTERING ACTIVITIES
DISCUSSED IN THIS REPORT

Tenure of office
From To

DEPARTMENT OF DEFENSE

SECRETARY OF DEFENSE:

Harold Brown	Jan. 1977	Present
Donald Rumsfeld	Nov. 1975	Jan. 1977
James R. Schlesinger	June 1973	Nov. 1975
William P. Clements, Jr. (acting)	Apr. 1973	June 1973
Elliot L. Richardson	Jan. 1973	Apr. 1973
Melvin R. Laird	Jan. 1969	Jan. 1973

ASSISTANT SECRETARY OF DEFENSE
(MANPOWER, RESERVE AFFAIRS
AND LOGISTICS):

John P. White	May 1977	Present
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ASSISTANT SECRETARY OF DEFENSE
(MANPOWER AND RESERVE AFFAIRS):

Carl W. Clewlow (acting)	Feb. 1977	May 1977
David P. Taylor	July 1976	Feb. 1977
William K. Brehm	Sept. 1973	July 1976
Carl W. Clewlow (acting)	June 1973	Sept. 1973
Roger T. Kelly	Mar. 1969	June 1973

CIVIL SERVICE COMMISSION

CHAIRMAN:

Alan K. Campbell	May 1977	Present
Vacant	Jan. 1977	May 1977
Robert E. Hampton	Jan. 1969	Jan. 1977

VETERANS ADMINISTRATION

ADMINISTRATOR:

Max Cleland	Feb. 1977	Present
Richard L. Roudebush	Oct. 1974	Feb. 1977

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
<u>DEPARTMENT OF TRANSPORTATION</u>		
SECRETARY OF TRANSPORTATION:		
Brock Adams	Jan. 1977	Present
William Coleman	Mar. 1975	Jan. 1977
John Barnum (acting)	Feb. 1975	Mar. 1975
Claude S. Brinegar	Feb. 1973	Feb. 1975
John A. Volpe	Jan. 1969	Feb. 1973
COMMANDANT OF U.S. COAST GUARD:		
Admiral Owen W. Siler	May 1974	Present
Admiral Chester R. Bender	June 1970	May 1974