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REPORT BY THE

Comptroller General

OF THE UNITED STATES

Wages For Federal Blue-Collar Employees Are Being Determined According To The Law, But Improvements Are Needed

Asked to investigate complaints of Federal employees that their hourly wage rates were not being set according to law, GAO concluded that the Federal wage-setting system is being used legally.

However, certain administrative changes should be made in the system. Also, proposed legislative changes should be adopted to help the system to better achieve its objectives and to alleviate problems that resulted in complaints.



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

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The Honorable Gladys N. Spellman
Chair, Subcommittee on Compensation and
Employee Benefits
Committee on Post Office and Civil Service
House of Representatives

Dear Madam Chair:

In response to your requests of December 14 and 15, 1978, and a request from Representative Sam M. Gibbons, we examined the complaints of Federal employees that blue-collar wages were not being set according to law under the Federal Wage System.

Our examination showed that the Federal Wage System is being used legally. However, certain administrative and proposed legislative changes should be adopted and are included as recommendations in this report.

We obtained oral comments from officials of the Department of Defense, the Veterans Administration, and the Bureau of Labor Statistics which are incorporated in the report. They substantially agreed with our recommendations. Also, the Office of Personnel Management provided written comments which are included in appendix IV.

We are also providing copies of this report to the agencies involved and other interested parties.

Sincerely yours,

R. J. K. H.
DEPUTY Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE SUBCOMMITTEE ON
COMPENSATION AND EMPLOYEE BENEFITS
COMMITTEE ON POST
OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES

WAGES FOR FEDERAL
BLUE-COLLAR EMPLOYEES
ARE BEING DETERMINED
ACCORDING TO THE LAW,
BUT IMPROVEMENTS ARE
NEEDED

D I G E S T

The House Subcommittee on Compensation and Employee Benefits and Representative Sam Gibbons asked GAO to investigate complaints about the Federal Wage System under which wages for 470,000 blue-collar employees in 135 areas are adjusted annually.

In a wage area in Pennsylvania, West Virginia, and Maryland, the National Federation of Federal Employees complained that the Government denied the union full participation in the survey, particularly by trying to unilaterally gather wage data from one company.

In this case, the Department of Defense--which has most of these employees and conducts most of the surveys--did attempt to collect survey data from the company without local union involvement. However, higher level officials stopped the data collection arrangement and eventually collected data in a manner consistent with wage regulations.

Better labor and management cooperation was needed at the local level. The main problem encountered in the survey arose because of the possible implementation of the Monroney Amendment which requires the use of wage data from other areas.

In another case, the Federal Employees Metal Trades Council in San Francisco contended that the Department of Defense unilaterally deleted high wage data from the 1978 survey and thereby reduced the wage increase.

GAO concluded that the Department of Defense did not violate wage regulations. Better communication between the Department's wage

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staff and wage officials in the field would improve data collection. Also, certain administrative arrangements used in this survey caused substantial amounts of productive time to be wasted and undoubtedly reduced the quality of the local committee's work.

In the Tampa, and St. Petersburg, Florida, areas, Federal blue-collar employees received a 3.8-percent wage increase in 1978. They believed the raise to be unrealistically low and complained that the survey may have been tampered with.

GAO detected no tampering to hold down Federal wages. However, the 3.8-percent increase was atypically low compared to raises for Federal employees in other areas of the State. The system needs better assurance that the surveys are determining prevailing rates.

Many selected companies cannot be surveyed because they simply refuse to participate. Communication to employers of additional information on the Federal wage-setting process and increased solicitation efforts should reduce the refusal rate. Also, because companies are selected from out of date State unemployment insurance records they are often no longer within the scope of the surveys. Investigation of alternative sources of more up-to-date information or pre-sample refinement of existing records should reduce this problem.

The Federal Wage System also lacks any statistical procedures to indicate the confidence of the prevailing rate as determined by the wage survey. A program of this magnitude should contain specified statistical standards as a basis for designing the sample and as a means of comparing survey results against those standards.

MATTERS FOR THE CONGRESS

Legislation has been introduced to correct the provisions of the Federal blue-collar law which, as previous GAO studies have shown, result in Federal rates exceeding local prevailing rates.

The proposed legislation calls for

- including more of the non-Federal work force in its surveys,
- revising within grade pay ranges and night shift differentials, and
- discontinuing the use of pay data from outside local areas.

Enactment of these changes, together with adoption of the recommendations in this report, should restore confidence in the system, result in smoother operating and more accurate surveys, and result in savings to the Government.

RECOMMENDATIONS TO THE SECRETARY OF DEFENSE

GAO recommends that the Secretary of Defense:

- Direct the Wage Fixing Authority to obtain labor's approval before taking any unilateral actions that differ from normal data collection.
- Direct the Wage Fixing Authority to communicate systematically to local wage committees the specific reasons why any of their data was found to be unusable.
- Avoid administrative problems similar to those which occurred in the 1977 San Francisco survey that were not cost effective and caused substantial time to be lost by data collection teams.

RECOMMENDATIONS TO THE DIRECTOR, OFFICE
OF PERSONNEL MANAGEMENT

GAO also recommends that the Director, Office of Personnel Management, in consultation with the Bureau of Labor Statistics and the lead agencies involved:

- Develop more positive and aggressive procedures for gaining better participation from local employers.
- Investigate the merits of (1) alternative sources of universe data or (2) planning for refinement of its samples before data collection.
- Develop statistical standards on which samples will be designed and procedures for measuring sampling errors so that the results can be evaluated with respect to the standards.

GAO obtained oral comments from officials of the Department of Defense, the Veterans Administration, and the Bureau of Labor Statistics which are incorporated in the report. The Office of Personnel Management also provided written comments (see app. IV). They substantially agreed with GAO's recommendations.

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ABBREVIATIONS

AFL-CIO	American Federation of Labor and Congress of Industrial Organizations
GAO	General Accounting Office
OPM	Office of Personnel Management

CHAPTER 1

INTRODUCTION

Wage rates earned by Federal blue-collar employees are adjusted each year by the Government to keep them comparable to rates paid by private industry. This is done in 135 separate areas of the country so that Federal wages will be comparable to private industry wages in each locality. Nationwide there are about 470,000 blue-collar employees under this pay system who earn about \$7.3 billion annually.

This pay system was established by Public Law 92-392 (subchapter IV, chapter 53, title 5, U.S.C.). Policies and procedures are prescribed by the Office of Personnel Management (OPM). The Bureau of Labor Statistics prepares lists of private employers to be surveyed, and generally the agency having the most blue-collar workers in an area conducts the survey and publishes the area's wage schedule. The Department of Defense has most of the Government's blue-collar employees and does most of the surveys. This responsibility is assigned to Defense's Wage Fixing Authority in the Office of the Secretary of Defense. In each wage area data collection and review is done by teams and a local wage committee made up of union and management members. Those results are forwarded to the designated agency where they are analyzed by wage specialists and reviewed by an agency-level wage committee. This committee recommends final approval of wage schedules and is also made up of union and management members.

The House Subcommittee on Compensation and Employee Benefits of the Committee on Post Office and Civil Service and Representative Sam M. Gibbons asked us to investigate complaints about the Federal Wage System. Employees and their unions claimed that certain wage increases seemed to have been determined improperly and that Government wage officials intentionally tried to hold down those increases. The specific complaints were that:

- In a wage area in Pennsylvania, West Virginia, and Maryland, the Government encouraged low-paying firms to participate in the survey and discouraged high-paying ones from taking part.
- In San Francisco, Government wage officials deleted wage data of high-paying jobs, thereby holding down the increase.

--Officials may have tampered with a Florida survey because it yielded only a 3.8-percent raise when it was well known that wages in the private industry had gone up much more.

SCOPE OF REVIEW

Our review was conducted at OPM, the Bureau of Labor Statistics, and the Veterans Administration headquarters. We also performed work at Defense's Wage Fixing Authority headquarters, its eastern and western regional offices, and two of its local wage survey areas.

We reviewed the pertinent steps of the three surveys in detail and compared the procedures followed with policies and practices set out in the Federal Personnel Manual and other directives. We evaluated certain aspects of the design of area wage surveys and the handling and analysis of data. We also discussed these matters with officials of the above agencies as well as representatives of private industry and Federal employee labor unions.

Discussion of proposed legislative changes to the Federal Wage System is based on prior GAO reports.

CHAPTER 2

PROBLEMS WITH THE FEDERAL WAGE SYSTEM

AND IMPACT OF PROPOSED LEGISLATION

After reviewing the complaints we can conclude that there are deficiencies in the design of the surveys and in data collection and analysis. We are recommending several changes that, if adopted, should help avoid similar problems in the future. These include

- setting standards before surveys are taken to better insure that enough firms are surveyed and that the results are sufficiently accurate,
- improving communication between headquarters wage officials and those in the field so that field personnel know why any data they gather is not used,
- assuring that no efforts are made to exclude labor's full participation in data collection, and
- eliminating certain administrative problems.

We also believe that agencies could get better cooperation from private employers by explaining to them how Federal wages are determined and why they may vary from what the private employers believe are local prevailing rates. (See chapters 3 through 5 for more details.)

PROPOSED BLUE-COLLAR WAGE LEGISLATION WOULD ALLEVIATE SOME PROBLEMS

Our office has been interested in the blue-collar wage system for some time and how well it achieves pay comparability with the non-Federal sector. We have concluded 1/ that it does not achieve comparability as well as it should, mainly because of various restrictions and requirements in the Federal wage legislation 2/ which tend to increase Federal rates above local rates. A description of these provisions and how they hinder comparability are contained in appendix I. The shortcomings in the law can create significant

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

2/Subchapter IV, chapter 53, title 5, U.S.C.

inequities between private and Federal pay, which can lead to criticism and negative reactions toward the Government and its pay-setting procedures.

This problem contributed to the difficulties in one of the wage surveys reviewed. Employers in the area believed that Federal wages were excessive. Partially for this reason one key firm which participated in past surveys refused to do so in 1978. The company also did not want to disclose its wage rates to labor union members involved in the Federal wage-setting process. But, without the firm's involvement there would not have been enough wage data available in the local area to meet the requirements of the Federal wage law. In that situation the Government has to obtain data from employers outside the area that can only be used to increase rates further. To avoid that, Government wage officials persuaded the firm to participate provided its wages were protected from scrutiny. However, this agreement violated wage regulations and could not be carried out. When the firm realized the irony of its position--Federal wages it considered excessive would be even higher if it did not participate--it reluctantly took part in the survey in the normal fashion.

Legislation (S. 1340 and H.R. 4477) has been introduced to correct the provisions of the Federal blue-collar law, which result in Federal rates exceeding local prevailing rates. This legislation would

- permit the use of State and local government wage data in wage surveys,
- eliminate the five-step system with the second step representing the payline and allowing the establishment of a step-rate structure consistent with industry practices,
- abolish the provision known as the "Monroney Amendment" which provides for using wage rates from other areas, and
- replace the 7.5- and 10-percent night shift differentials with appropriate differentials based on industry practices.

Enactment of these changes combined with the recommendations in this report would

- restore confidence in the system,

--result in smoother operating and more accurate wage surveys, and

--result in savings to the Government.

The above bills also provide that General Schedule white-collar compensation be determined on a locality basis the same as blue-collar wages. Because of the potential similarity, it might be concluded that the General Schedule system would have the same kinds of problems that prompted these complaints. Until a white-collar locality pay system is designed, it is difficult for us to say whether or not it would have these problems. In any event, the survey design and wage data collection and analysis of the blue-collar wage system would continue to be separate from the white-collar system.

CHAPTER 3

CHAMBERSBURG, PENNSYLVANIA--IMPROPER

DATA COLLECTION ATTEMPTED

The Department of Defense is the lead agency for the wage area encompassing Chambersburg, Pennsylvania; Hagerstown, Maryland; and Martinsburg, West Virginia. There are about 4,000 Federal blue-collar employees in the area and most work at Letterkenney Army Depot, a combat equipment repair facility and host installation for the wage surveys. The National Federation of Federal Employees provides labor representation on the local wage survey committee and data collection teams.

The 1978 survey encountered problems stemming from private industry dissatisfaction with Federal wages and survey procedures. This caused Defense wage officials to attempt to gather data without full labor participation. However, this arrangement was stopped when brought to the attention of higher level officials.

PARTICIPATION PROBLEMS FORCE THE POSSIBLE USE OF WAGE RATES FROM OUTSIDE THE AREA

Before the 1978 survey, two large companies in the area indicated that they would not participate. One company refused because it felt its wage rates, based on a nationwide bargaining contract, were abnormally high for the area and would bias the sample. The company had not participated in the previous full-scale survey for the same reason. The second company had participated in previous surveys but did not want to take part in 1978 after learning that labor members were involved in gathering and reviewing the wage data. This company was also disturbed by what it considered to be extraordinarily high Federal wages in the area.

In December 1977 the latter company agreed to participate if (1) no person outside of management viewed its data and (2) a copy of data obtained from each company in the survey, coded for anonymity, was sent to participating companies. These conditions were later determined to be unacceptable to Defense because by law and regulation the data could not be processed without labor review at some level, and that simply coding the source of data would not adequately safeguard against public disclosure of a specific firm's pay rates. (The next section contains a fuller discussion of Defense's efforts to obtain this company's participation.)

These two companies had jobs most similar to specialized positions at the Letterkenney Depot. If they had not participated in the survey, a provision of the wage legislation known as the Monroney Amendment would have come into play. The Monroney Amendment (5 U.S.C. 5343(d)) requires that there be a "sufficient" number of private industry positions in an area that are comparable to the principal Federal positions for which the survey is made. If there is an insufficient number in the area the Government must use wage rates from the nearest similar area where there is a sufficient number of such positions. Moreover, the rates gathered from outside the area may only be used to increase rates in the area. These two companies were the only ones in the area with enough needed comparable positions, and without them the Monroney Amendment would have to be implemented.

At the same time, Defense was also receiving complaints from the Congress and private employers in the area that Federal wages exceeded prevailing rates. The most vocal group was the Cumberland Valley Chapter of the American Society for Personnel Administration who claimed that Federal wages in the area were 25 to 41 percent above private industry rates. It based its claim on its own survey of 28 member companies. Being aware that data existed in the area to prevent implementation of the Monroney Amendment, which would mean even higher Federal wages, Defense believed it was important to obtain that data.

We agree that all reasonable means should have been used to include these two key companies in the survey because Federal wage rates should be based on rates prevailing in an area, not outside.

Also, because comparability with private industry is the intent of the Federal Wage System, we were concerned about the American Society for Personnel Administration belief that Federal wages were excessive by as much as 41 percent. We therefore compared the Society and Federal surveys in detail and analyzed the differences in their results. (See app. II for a detailed explanation of the differences.) The two surveys have very different guidelines so the end results are not compatible unless several adjustments are made to the data. There is some merit to the claim that Federal wages are higher, however, they do not differ by nearly as much as the Society claims.

DEFENSE OFFICIALS MADE A UNILATERAL
ARRANGEMENT TO OBTAIN ONE COMPANY'S
PARTICIPATION

In early January 1978, Letterkenney Army Depot officials, wage specialists from the Defense Wage Fixing Authority, and Society representatives met at the request of the Society to discuss the Federal Wage System and the "high" Federal wages. One of the Society members was an official of the company that did not want to participate in the survey because labor was involved. The Federal labor representative of the local wage survey committee asked to attend the meeting but was refused and was told the meeting would pertain only to general topics.

During the meeting, the Defense wage specialists suggested an arrangement in which the company's wage data could be obtained without local union involvement. The company official agreed to the arrangement in which the local data collection team would determine which of the company's jobs matched the Federal jobs in the survey, and would leave their prepared forms with the company. The company would fill in the wage data and forward the forms to the Department of Defense Wage Fixing Authority in Washington, D.C.

The Authority's wage specialists and the company's representative have different interpretations over what was agreed to during the meeting. The company's representative claims that he was assured that no labor official at any level would see the data in a form that would identify it as from his company. Defense wage officials claimed that they were told no local review by labor would be made, but that labor officials at the national level would review it. Accordingly, the Defense Wage Fixing Authority staff arranged for headquarters officials of the National Federation of Federal Employees to review the data. However, before this could take place higher level officials of the Civil Service Commission (now the Office of Personnel Management) and Defense learned of the arrangement and agreed that the data from the company could not be used in the wage calculations as collected.

The Deputy Assistant Secretary of Defense for Civilian Personnel then wrote to the two refusing companies in a special effort to gain their participation. He pointed out that if they did not take part the Monroney Amendment would have to be implemented and would cost an extra \$415,000 annually if it raised rates by only 5 cents an hour.

As a result of these letters both companies participated in the normal manner. The company which disliked labor involvement in the surveys participated because of the likelihood that the Monroney provision would be implemented, and that it would have to compete against even higher Federal wages. The other company was persuaded by the importance attached to full survey participation as conveyed in the Deputy Assistant Secretary's letter.

In commenting on this report Defense officials said that the problem was not so much with the arrangement itself, but in their failure to obtain local labor's agreement in it. As a precedent, they pointed out that they sometimes collect data without labor's direct participation, but with labor's agreement. For example, in order not to repeatedly bother large companies having sites and employees in several wage areas, their data is gathered at a central point by the Wage Fixing Authority. This practice was agreed to by members of the department-level wage committee. We recognize that such special arrangements can mutually benefit all interested parties as long as they are agreed to beforehand.

CONCLUSIONS

The National Federation of Federal Employees was right in objecting to the arrangement made by Defense wage specialists to obtain data from the one company. The Defense guidelines stress the importance of preserving labor's interest in the survey process and that there should be joint labor-management participation at all levels and in every phase of the wage determination process. Nonetheless, the meeting, in which labor was specifically refused attendance, turned from a discussion of the wage system to a direct attempt to obtain data without labor's participation.

On the other hand, we do not believe that Defense discouraged any company from taking part in the survey. Its initial attempts were directed toward the one key company which participated in prior surveys, and we believe the agency was reasonable in expecting more success in first getting this company to change its position rather than the other key company which did not participate in the 1976 survey.

Higher level officials, when notified, prevented Defense officials attempts to gather data through a special arrangement. We agree that every reasonable effort should have been taken to base Federal wages on private industry wages in the locality.

Although various provisions in the Federal wage law cause Federal wages to exceed local prevailing rates, they are not 25- to 41-percent higher in this wage area as claimed by the American Society for Personnel Administration. Had the disparities between the two surveys been analyzed and explained, there may have been less resistance to the Federal Wage System and more cooperation from key employers.

The problems encountered in this survey stemmed from a suspicion by private employers that Federal wage rates are excessive. In part, those suspicions were justified and caused Federal wage officials to take steps contrary to the wage regulations.

MATTERS FOR THE CONGRESS

We have recommended and still recommend that the Congress revise certain provisions of the Federal wage legislation. We believe the effect of these provisions, as discussed in appendix I, contributed to the suspicions held by private employers in the area.

RECOMMENDATION TO THE SECRETARY OF DEFENSE

We also recommend that in the future the Secretary of Defense direct the Wage Fixing Authority to obtain labor's approval before taking any unilateral actions that differ from normal data collection practices.

AGENCY COMMENTS

OPM officials stated in their written comments (see app. IV) that they had recently testified before the Congress in support of the current proposed legislation to modify the Federal Wage System. This includes certain provisions discussed in this report (see app. I). They also agreed that the data collection effort should be a joint one between labor and management.

Officials of the Department of Defense Wage Fixing Authority also agreed with the thrust of our recommendations as currently stated.

CHAPTER 4

SAN FRANCISCO--BETTER COMMUNICATION

NEEDED BETWEEN HEADQUARTERS AND THE FIELD

There are about 19,000 Federal blue-collar employees in the San Francisco area. The 1977 wage survey yielded a pay increase of 9.22 percent. It was a full-scale survey wherein data collectors visited a sample of private employers, matched jobs with Federal survey job descriptions, and gathered wage information. The data was forwarded to the Department of Defense Wage Fixing Authority in Washington, D.C., where the wage line was computed.

In 1978, in accordance with the wage regulations, updated rates were obtained by telephone for the same jobs that were matched by the data collectors the previous year. This interim survey yielded an 8.63-percent increase. ^{1/} However, when the 1978 survey was conducted a member of the Federal Employees Metal Trades Council, American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), representing labor on the data collection teams and the local wage committee, noted that many job matches that were made in 1977 had been deleted, presumably by the Wage Fixing Authority. He claimed that the Authority unilaterally deleted high-paying jobs from the 1977 full-scale survey which caused wages to be held down 2 years in a row.

We reviewed these claims and found that about 12 percent of the matches approved by the local committee in 1977 were deleted by the Wage Fixing Authority before the wage line was calculated. About one third of these were deleted to conform to rules in the Federal wage regulations. The remainder were judgment deletions by the technical staff of the Wage Fixing Authority. While we do not disagree with the staff's judgment in these deletions, we believe that the Authority should better document their reasons for making deletions and inform local committees why deletions are made.

^{1/}Except that Public Law 95-429 imposed a 5.5-percent limitation on pay increases for Federal employees in fiscal year 1979.

LOCAL COMMITTEES AND DEPARTMENTAL
WAGE FIXING AUTHORITY HAVE DIFFERENT
VIEWPOINTS AND EXPERTISE

Wage data obtained from private employers undergoes two major reviews before being used--once by the local committee for the area and again by the staff of wage specialists of the Department of Defense Wage Fixing Authority. Both have the same guidelines to make their decisions, but they may have significantly different views of the information.

The local wage survey committee reviews all data obtained by data collectors for accuracy and appropriate documentation. They also reconcile any differences between data collectors about the comparability of job matches or interpretation and application of the policies and procedures in survey instructions. The local committee then forwards a report and all wage data, including any which it recommends not to be used in making pay determinations, to the Wage Fixing Authority along with the committee's reasoning concerning any deletion or other changes to data reported by data collectors.

Local committee members have other full-time jobs and may not be thoroughly familiar with all aspects of the Federal Wage System. Since the local committees are active for only a few weeks each year there may be a loss of continuity in personnel from survey to survey.

The technical staff of the Wage Fixing Authority which receives and reviews the material sent in by the local committees is made up of full-time wage specialists with considerable expertise and experience with the Federal Wage System. After the technical staff reviews and tabulates the data from each survey it proposes a wage schedule to the agency wage committee which is made up of management and labor members.

WHY JOB MATCHES WERE DELETED

The local wage committee in the San Francisco area approved 16,913 job matches of which 2,036 or 12 percent were deleted before the wage line was calculated.

About one third of these were deletions to conform to a rule in the Federal wage regulations. It states that if any incentive rate jobs (as opposed to jobs paying straight hourly rates) are found in the survey they must

make up at least 10 percent of all job matches to be included in the final calculations. In the San Francisco survey there were 580 incentive rate job matches; however, because this was less than 10 percent they were deleted.

The remaining deleted matches (1,448) were decision calls by the technical staff of the Wage Fixing Authority. These fell into three categories

- 1,157 matches, as described on the data collection forms, failed to fulfill or exceeded the duties of the Federal survey job description (e.g., a welder that did some welding work but did not perform at the full journeyman level);
- 269 matches, as described in the forms, actually were a combination or mix of other jobs (e.g., a carpenter that spent the majority of his time performing carpentry duties and a lesser amount of time on machinery repair or maintenance); and
- 22 matches were deleted because the technical staff felt the data collectors had not gathered enough information to justify the job match.

We went over these deletions with members of the Authority's technical staff and the local committee. In each case the technical staff pointed out discrepancies that in their view justified deleting the job matches. When we pointed out these reasons to local committee members, they changed their position in a few cases but for the most part disagreed with the technical staff. The disagreements center mainly around differing interpretations of the same facts. All officials agreed that subjective judgment is needed to match private industry jobs with written job descriptions. The local committee tended to accept as matches jobs that were essentially the same as the job descriptions, but had a few additional or missing features. The technical staff, on the other hand, took a hard line against these differences on the grounds that although they were not always significant they involved duties not a part of the official job descriptions and therefore can account for pay variations that should not be included in the surveys.

Union officials maintained that the Authority was intentionally deleting high-paying jobs to hold down raises. In the San Francisco survey, 83 percent of the deleted matches were higher than the payline rates that were adopted. The technical staff claimed that although this may have been true in this survey they are impartial when reviewing

the data and that deletions are made on the merits of each case. The hourly rate of a job can be one of many indications as to whether the job match is valid. However, if the rate is significantly above or below that of other company jobs in relation to duties performed it can be an indication that the pay really reflects compensation for lesser or additional duties or combined job functions.

We reviewed deleted jobs in 99 wage surveys including San Francisco, in which Defense was the lead agency to see if job matches deleted by the Authority tended to be above or below the approved paylines for the surveys. In the 99 surveys, 52 percent of the deleted jobs were lower paying than average and 48 percent were higher.

BETTER COORDINATION OF ADMINISTRATIVE
MATTERS SHOULD HAVE INCREASED SURVEY
QUALITY

In addition to having much of their data deleted, local officials complained of being given only 2 weeks to complete the data collection and review.

Defense conducts 112 wage surveys annually, and generally new wage rates must be effective no later than 45 workdays after a survey starts. Thus, all parties involved are under tight schedules and do not have the time that they would probably like for data collection.

The tight timeframes make it especially important that all involved personnel make maximum use of their time. Considering these timeframes, the San Francisco survey had serious shortcomings. The data collectors representing management from a Navy installation were given temporary duty assignments to the general vicinity where many of the private employers were located. But, another Navy installation that provided the labor data collectors would not approve temporary duty assignments. The labor data collectors therefore had to drive to and from the area which amounted to daily round trips of up to 150 miles. And, since data gathering is done jointly by labor and management collectors, the management members had to wait each day for the labor collectors to arrive. This resulted in half workdays because of all the travel time required. Considering the mileage cost and lost time, it would have been much more cost effective to the Government to temporarily assign all data collectors closer to their work. The extra time made available for data collecting might also have increased the quality of the information received by the local committee.

CONCLUSIONS

Although we do not disagree with the job matching decision made by the technical staff of the Wage Fixing Authority, we believe it would have been beneficial for the staff to more quickly and fully explain their decisions to the local committee.

The local committee was not aware until a year later that many of the job matches they made were never used. And even then it was not necessarily aware of specifically why the Wage Fixing Authority rejected many matches. We believe that quicker feedback would help the local committee to correct recurring errors they might be making. Because subjective judgment is involved, there will probably never be total agreement on many matching decisions between the Authority and local committees. However, in the long run any additional effort this would cause the Authority should be offset by improved data collection by more informed local committees. The Veterans Administration follows a workable policy of fully informing its local committees about unacceptable data they submit.

RECOMMENDATIONS TO THE SECRETARY OF DEFENSE

We recommend that the Secretary of Defense, in his capacity as lead agent for most of the Federal Wage System surveys:

- Direct the Wage Fixing Authority to systematically communicate to local wage committees the specific reasons why any of their data was found to be unusable.
- Avoid administrative problems similar to those which occurred in the 1977 San Francisco survey that were not cost effective and caused substantial time to be lost by data collection teams.

AGENCY COMMENTS

Department of Defense Wage Fixing Authority officials agreed with the substance of our recommendations as stated. OPM stated it would work with the agencies to assist them in establishing procedures to provide feedback on administrative problems during the survey process.

CHAPTER 5

TAMPA, FLORIDA--MORE ASSURANCE

OF ACCURACY NEEDED IN THE FEDERAL WAGE SYSTEM

Wage surveys are made in Tampa and St. Petersburg by the Veterans Administration to determine the wage rates for some 1,100 Federal blue-collar workers in the area. The 1976 full-scale survey resulted in a 9.37-percent increase, while the 1977 telephone update of the same employers resulted in a 7.56-percent increase. However, the 1978 full-scale survey yielded only 3.83 percent. A constituent complained that it was too low and questioned whether there had been "official tampering" with the survey.

No evidence of manipulation of the survey was found although the 3.83-percent increase does seem abnormally low. However, there are several shortcomings in the Federal Wage System survey process which may cause survey results to be atypical of the universe. A major problem is the lack of participation by many of the companies selected to be in the surveys. This can affect how accurately the surveys measure prevailing rates, but the effect of nonparticipation cannot be determined. The problem can be partially corrected by improving the timeliness and accuracy of information on local companies and better communicating to them the importance of their participation in the surveys.

Another problem is that the Federal Wage System does not use statistical procedures that indicate the confidence level and precision of the wage estimates resulting from the sample surveys. In this case such information would have helped determine the likelihood that the estimated wage level varied from the prevailing level by more than an acceptable amount.

MANY SELECTED COMPANIES ARE NOT SURVEYED

When a survey is planned the Bureau of Labor Statistics prepares a list of companies to be sampled. However, not all these companies can be surveyed because the lists are out of date and many of the companies refuse to participate. In the Tampa survey as well as eight other surveys we looked at, 38 percent of the listed companies were not surveyed for these reasons.

Companies in the Tampa survey did not participate mainly because they simply declined to do so. They felt overburdened in cooperating with Government data collection programs

or were reluctant to make wage data open to union scrutiny. Refusals of this type can introduce a bias to the survey results due to the incomplete coverage of the universe.

At present, companies are sent a short letter approximately 1 week before the data collectors' interview briefly explaining the Federal Wage System, requesting each company's cooperation, and advising them that they will be contacted to set up an interview (see app. III). If a company refuses when contacted, a representative of the local committee will call the company to further solicit its cooperation. Occasionally, a letter from the agency's headquarters is sent if the company still refuses to participate.

In addition, many of the companies could not be used generally because of changes in the companies' status between the effective date of the information in the universe (Jan. to Mar. 1977) and the actual date of the survey (May 1978). The universe files for surveys are based on State unemployment insurance accounts, but between the time this information is compiled and the survey is taken, many companies will have moved, gone out of business, or changed in size or other characteristics rendering them no longer useful for survey purposes. This has the effect of reducing the overall sample size. Identifying these changes and refining the lists also adds to the workload of the lead agencies during data collection. They and OPM believe that the Bureau of Labor Statistics should refine the lists before giving them to the lead agencies. They also would like to investigate the possibility of developing alternative sources of universe data. Bureau officials pointed out that while there is no system for updating changes in the samples, such refinement procedures are a normal part of statistical sampling and are best accomplished in the field. Within the next 2 years, the Bureau will implement a new automated universe data base management system allowing updates. This should reduce but not eliminate the data problem.

CONCLUSIONS

Although the exact effect cannot be determined, the high refusal rate of private employers may bias the survey results, and it could be reduced. Agencies need to better explain to a selected company why its participation is important. The initial contact is important, and it should involve more than a short letter which gives the impression of being a notification of an upcoming visit by data collectors. For example, the agencies could include more

information about why its company can make an important contribution, perhaps in the form of a brochure of answers to questions most often asked about the Federal Wage System, what is done with the data, and how it is protected from disclosure. Agencies could also publicize the surveys among local business groups. Such additional information and increased solicitation effort should reduce the refusal problem. Increased participation would result in Federal rates that more closely reflect prevailing rates, which in the long run should benefit private industry as well as the Government and its work force.

Inaccuracies in the lists could be minimized by building into the survey process adequate time and resources for sample refinement before data collection. The sample size will require an upward adjustment to account for expected losses due to companies being out of business or out of the scope of the survey.

RECOMMENDATIONS TO THE DIRECTOR,
OFFICE OF PERSONNEL MANAGEMENT

To increase the participation of selected companies and obtain more accurate sample listings, we recommend that the Director, OPM, in consultation with the lead agencies and the Bureau of Labor Statistics

--develop more positive and aggressive procedures for gaining better participation from local employers and

--investigate the merits of alternative sources of universe data and planning for refinement of the samples before data collection.

AGENCY COMMENTS

The Veterans Administration agreed with our recommendation but doubted that refusals to participate in this survey had a significant effect on the outcome. This was because in most cases where a company refused, an alternate was visited or another company's data was reweighted to make up for the refusal. The remaining few refusals which could not be compensated for by choosing an alternate or reweighting did not have enough employees to materially affect the results.

We disagree because in this case the number of refusals (22) relative to both the number of establishments in the

scope (123) and the number finally surveyed (101) is sufficiently large to raise the possibility of bias on the estimate of prevailing rate in Tampa. Although the use of alternates and reweighting of data from other companies is an acceptable procedure and serves essentially to make the best of a bad situation, it involves assumptions about the wages paid in refusing companies which cannot be verified. To the extent that the refusals represent a sizeable fraction of workers in survey jobs and that there is a systematic bias in the wage rates of refusing companies, the survey estimate of the prevailing rate in a wage area can be substantially in error.

Officials of the Bureau of Labor Statistics and the Department of Defense Wage Fixing Authority agreed with the thrust of our recommendations as stated.

OPM stated it is currently reviewing the procedures that are used to initially solicit private sector participation, and agreed with our recommendations to develop more positive and aggressive procedures for gaining participation from local employers. OPM also stated that it would study the feasibility of alternative sources of universe data and that positive efforts in this area would only enhance the participation rate.

NO STATISTICAL STANDARDS AGAINST WHICH TO EVALUATE THE WAGE ESTIMATE

When compared to Federal blue-collar raises in the rest of Florida, the Tampa increase of 1978 was abnormally low. There are six other Federal wage areas in the State, and during the 3 years--1976 through 1978--all (except Tampa in 1978 which was 3.83 percent) had annual increases between 6.4 and 11.6 percent.

We therefore reviewed the 1978 Tampa survey from design of the survey specifications through computation of the pay-line. The survey complied with the Federal wage regulations and there was no evidence of manipulation to restrict the wage increase.

A Veterans Administration's analysis showed that the 1978 survey included a majority of companies which were not in the prior surveys. These new companies paid substantially less than the other surveyed companies and thus depressed the wage increase. After analyzing the statistical techniques used to select the sample, we concluded that the new companies were validly selected and there was no manipulation involved. However, a more complete evaluation of the

reliability of the survey cannot be made because of two deficiencies in the survey process. The first is the absence of specified statistical standards on which the sample design is based. The other is the lack of a measurement system and evaluation process for comparing survey results against those standards.

These two processes are needed since the element of chance enters into the survey estimates because all units in the universe will not be in the selected sample. The amount of chance affecting the estimates can be controlled by specifying standards of statistical reliability which are to be used in selecting the sample. These standards consist of the amount of sampling error which is considered tolerable in the survey estimates and the probability (chance) that the survey estimates will lie within that tolerance. Thus, the 95-percent confidence level often used in sampling still leaves a 5-percent chance that a properly selected sample will produce an estimate differing from the "true" value by more than twice its associated sampling error (tolerance). Elimination of all chance can only be accomplished by 100-percent sampling which is usually not feasible in wage surveys because of the large number of employers that would have to be visited and the time constraints on the survey process.

Subsequently, the amount of chance is evaluated by actually measuring the amount of sampling error which occurs in a survey estimate and comparing that to the specified tolerance standards. A decision can then be made about the statistical reliability of the survey estimates. Thus, when we found no improprieties in the sample selection process or in other stages of the survey we were interested in how chance was controlled in the survey as it appeared that chance may have affected the survey estimates. However, no statistical standards had been established for use in the sample design, and no measures of sampling errors had been computed. Hence, a statistical evaluation of the survey estimates is not possible. Therefore, although a wage line was computed at the conclusion of the survey, it cannot now be defended at a 95-percent confidence level, 75 percent, or any other figure.

The agencies most involved in the conduct of the Federal Wage System are aware that the lack of statistical standards and sampling error measurement is a problem. Last year, the Civil Service Commission, now the Office of Personnel Management, the Department of Defense, and the Bureau of Labor Statistics met to discuss the development of sampling error

estimates. However, no action was taken as a result of these meetings due to technical disagreements and lack of resources.

Federal wage surveys use relatively complex sampling techniques, involving stratification of companies by size and type of industry. Weighting and other specialized techniques are also used to help insure that job matches obtained represent the universe, and at the same time that there is some degree of sample continuity in successive surveys. The development of sampling error estimating techniques for this type of sampling is more complex than when simple random sampling is used. Development of statistical standards will require consideration of the technical aspects of survey design and some procedures may have to be changed to satisfy the standards. In addition, historical information from prior surveys will have to be examined to determine how much private industry pay rates vary for particular jobs. This variability needs to be known to develop reasonable tolerance standards and to develop a sufficient sample design.

Given these complexities we can understand why no further action was taken to develop a sampling error estimating system for the surveys. However, we believe that a solution is within the expertise of the agencies concerned and could be achieved without a major expenditure of resources.

CONCLUSION

Federal Wage System surveys result in wage rates for 470,000 blue-collar employees and an annual payroll of over \$7 billion. A program of this magnitude using sampling should have specified statistical standards as a basis for designing the samples and a means of comparing survey results against those standards. This would better insure that statistically reliable estimates are used in the determination of prevailing wage rates.

RECOMMENDATIONS TO THE DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

To better assure that Federal Wage System surveys provide reliable estimates of prevailing wages in the private industry, we recommend that the Director, OPM, in consultation with the Bureau of Labor Statistics and the lead agencies involved, develop

--statistical standards upon which samples will be designed and

--procedures for measuring sampling error so that the results can be evaluated with respect to the standards.

AGENCY COMMENTS

OPM agreed with our recommendation and stated that in the very near future OPM officials will be meeting with the Bureau of Labor Statistics and the agencies involved regarding the development of standards of statistical precision.

Officials of the Bureau of Labor Statistics, the Department of Defense Wage Fixing Authority, and the Veterans Administration also agreed with our recommendation.

LEGISLATION NEEDED TO BETTER OBTAIN COMPARABILITY
FOR FEDERAL BLUE-COLLAR EMPLOYEES 1/

Public Law 92-392 (subchapter IV, chapter 53, title 5, U.S.C.) emphasized the comparability principle for blue-collar employees. It provided that their pay be fixed according to the prevailing rates for comparable work in local wage areas. Comparable to the General Schedule, the law specified equal pay for substantially equal work and that there be pay distinctions in keeping with differences in work and qualification requirements. To carry out these principles, annual wage surveys of representative jobs and pay are made in 135 areas of the United States.

The law contains several provisions which we believe prevent attainment of comparability and which, if changed, could save the Government an estimated \$2.5 billion in the first 5 years.

STATE AND LOCAL GOVERNMENTS
SHOULD BE INCLUDED

Wages surveyed for the Federal Wage System are restricted to those of private industry thus excluding the growing work force in State and local governments--over 12 million employees representing about 14 percent of the civilian work force. As such, they are significant competitors in its labor market and Federal rates should reflect the influence of their wages.

WITHIN-GRADE PAY RANGE TOO GREAT AND
DOES NOT RELATE TO PREVAILING RATES

The 1972 Federal Wage System legislation broadened the pay range at each grade from 8 percent with three uniform steps to 16 percent with five uniform steps. The law also provided that the average local prevailing private industry rate be equated to the second step of the blue-collar schedule and that the first, third, fourth, and fifth steps be set at 96, 104, 108, and 112 percent, respectively of the second step.

1/As discussed in our report "Federal Compensation Comparability: Need for Congressional Action" (FPCD-78-60, July 21, 1978).

In May 1973 when the 5-step system became effective, about 75 percent of the Federal blue-collar employees moved into step 4, which pays 8-percent more than local prevailing rates. As of October 1978, 80 percent of the employees were above step 2.

Studies of private industry step rate practices show that many employers use single-rate schedules and most use three or fewer steps.

The Federal 5-step wage schedule, with the second step designated as the prevailing private industry rate, results in Federal pay being above the local prevailing rate. Thus, it gives the Government a competitive advantage in the labor market.

PREVAILING RATES OF OTHER LOCALITIES USED TO SET FEDERAL RATES

Public Law 92-392 provides that under certain conditions Federal wages can be set from wage data obtained outside the particular wage area. This provision, commonly referred to as the Monroney Amendment, was to provide a procedure in which Federal blue-collar jobs requiring special skills that were not found locally could be equated with comparable private enterprise positions in other similar areas.

If there is an insufficient number of comparable positions in private industry in an area, the law requires that pay rates be based on the rates paid for comparable positions in the nearest wage area which is most similar in population, employment, staffing, and industry. This data may not be used to reduce the pay rates for any grade below that which would have been established without the use of the out-of-area survey data.

NIGHT SHIFT DIFFERENTIAL NOT RELATED TO PREVAILING INDUSTRY PRACTICES

The Federal wage law provides that blue-collar employees be paid their scheduled wage plus (1) a 7.5-percent differential when the majority of nonovertime hours are worked between 3 p.m. and midnight and (2) a 10-percent differential when the majority of the work hours fall between 11 p.m. and 8 a.m.

Before the 1972 legislation, night shift differentials were determined according to prevailing industry practices in the local wage area. The Federal shift differentials of 7.5 and 10 percent are substantially above rates prevailing in many wage areas. Previous studies of private industry establishments show that most use a flat cents-per-hour amount in compensating for night differentials rather than a percentage differential.

ANALYSIS OF DIFFERENCES BETWEEN THE AMERICAN
SOCIETY FOR PERSONNEL ADMINISTRATION WAGE
SURVEY AND FEDERAL WAGE SYSTEM SURVEY

The Cumberland Valley Chapter of the American Society for Personnel Administration claimed, based on its own survey, that Federal rates in the area were 25- to 41-percent higher than private industry rates. The legislative intent of the Federal Wage System is to make Federal rates comparable to private industry rates. In view of the Society's criticism of Federal wages, and the resulting difficulties that occurred in conducting the 1978 Federal survey, we were interested in why the two surveys yielded such large differences.

As explained in appendix I, the Federal wage legislation contains some provisions which tend to increase Federal wages above local rates. To some extent these contribute to the differences found by the Society. For instance, the Society compared its results to step 4 of the 5-step Federal Wage System schedules because most Federal blue-collar employees are at or above that step. But, by law, the results of the Federal survey must become step 2 of the schedules. The difference between steps 2 and 4 accounts for 8 percent of the differences claimed by the Society.

The largest difference between the results of the two surveys is due to the fact that the Society deleted the highest and lowest paying companies. In the Society's survey the highest paying company provided over 950 matches. The lowest paying company provided only one match. By these deletions the Society reduced its survey results by about 15 percent, with some survey jobs reduced by 28 percent.

These two factors account for about 23 percent of the 25- to 41-percent difference claimed. The remainder could be accounted for by many other differing features between the surveys, the results of which cannot be readily quantified. These include:

- Different jobs. While the Federal survey covered 28 jobs, the Society's survey covered 15--about half of these were similar to the Federal survey jobs.
- Different employers. The 1978 Federal survey covered 78 companies, 14 of these were members of the Society and provided 60 percent of the Federal survey job

matches. The Society's survey covered 28 employers. It also covered hospitals, a bank, and a State college. State institutions, by law, are excluded from Federal surveys. We have recommended 1/ that Federal surveys include State and local governments to get better representation of non-Federal wages. The proposal before the Congress to revise the Federal Wage System also calls for surveying State and local governments.

- Incentive rates jobs. The Federal survey included them, the Society survey did not, and instead used only guaranteed minimum rates.
- Statistical projection and payline computation. Companies in the Federal surveys are assigned numerical weights based on statistical criteria involving the size of the company and how many other similar companies there are in the universe. This data is used to compute a wage line using regression analysis. In the Society survey all companies had equal weight and no wage line was computed.
- Collection procedures. Under Federal surveys teams of data collectors visit each employer and gather data through interviews. The Society survey was done by questionnaire and no visits were made.

We conclude that there is some validity to the Society's claim that Federal wages are higher, however, we doubt that they differ by nearly as much as the Society claims. There are too many differences between the surveys, in coverage and methodology, to support a contention that Federal and non-Federal wages differ by a specific amount.

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

F-14

FEDERAL WAGE SYSTEM

**SAMPLE LETTER REQUESTING THE COOPERATION
OF PRIVATE ESTABLISHMENTS**

DEAR SIR: The (name of host activity) expects to participate in a survey which is being planned by the (name of lead agency) for the purpose of determining the prevailing wage rates for skilled and unskilled trade, craft and laboring jobs in the area. If agreeable to you, we would like very much to include your organization in this year's survey.

It is the policy of the Federal Government to pay wages that approximate local going rates. This policy is regarded as equitable because it minimizes the possibility of unfair competition resulting from the Government paying rates higher than other employers and at the same time assures Federal employees fair rates of pay.

A sample will be taken of rates paid by local private employers for work similar to that performed by Federal trade, craft, and laboring employees as represented by selected survey jobs. The results will be tabulated to determine the local going rates of pay for the jobs surveyed. Federal wage schedules established on the basis of the survey data will reflect the general levels of local rates and will apply to wage employees of all Federal agencies within the area.

In order that prevailing rates may be determined, it is necessary to visit various establishments to ascertain the rates they are paying. The data collection team which will visit each establishment will consist of two Federal employees.

Each person participating in survey and wage-fixing procedures is pledged to keep the information confidential. Data collected will be used by those assigned responsibilities within the framework of the Federal Government's program for wage-fixing. These persons include responsible officials and employees of local activities duly appointed to participate in the survey, agency headquarters officials, and labor organization representatives on Federal wage committees, and officials of the Civil Service Commission.

My representative will telephone you within the next few days to arrange a time at your convenience for an interview.

Sincerely yours,

United States of America
**Office of
Personnel Management**

Washington, D.C. 20415

AUG 31 1979

Mr. Brian P. Crowley
Associate Director
Federal Personnel and Compensation
Division
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Crowley:

We appreciate the opportunity to comment on the draft of the General Accounting Office (GAO) report entitled "Are Wages for Federal Blue-Collar Employees Being Determined According to the Law."

In reviewing the report, we generally agree that the proposed recommendations represent desired improvements. This report, like past GAO reports, recommends that the Congress revise the current statutory provisions applying to Federal Wage System (FWS) employees. As you know, the Administration has drafted and submitted to the Congress a comprehensive pay reform proposal. Included in this proposal are provisions that would modify current Federal Wage Legislation and would improve the comparability concept as it relates to FWS employees. We have recently appeared before the Congress in support of this legislation and will continue to give it our support.

Another recommendation in the report was that agencies avoid unilateral action that would exclude labor's participation in the data gathering process. In the instance cited where it appeared that efforts might have been taken to exclude labor from the process, both this Office and Headquarters, Department of Defense intervened to insure that the data was collected in the proper manner. We believe that management working with labor can overcome obstacles in the data collection process. The effort must, of course, be a joint one.

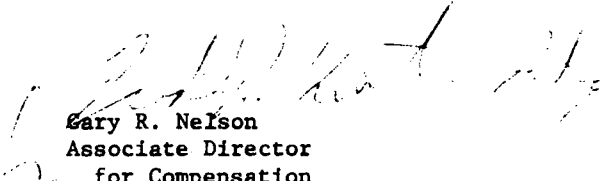
The recommendation that a means be established to avoid administrative problems in communicating to the local wage committees is a matter that must be developed by the lead agencies. We will work with the agencies to assist them in establishing procedures to provide feedback on administrative problems during the survey process.

You also recommended that this Office, in consultation with the lead agencies, investigate the merits of alternative sources of universe data and develop more positive and aggressive procedures for gaining participation from local employers. We are currently reviewing the procedures that are used to initially solicit private sector participation. We agree that more positive steps are needed during the initial contact with these employers. We will also study the feasibility of using alternative sources of universe data. We believe that positive efforts in this area can only enhance the participation rate.

Lastly, you recommended that standards of statistical precision be established for full scale surveys. We agree with the need for such standards and will be meeting with the agencies and the Bureau of Labor Statistics in the very near future regarding this matter.

Again, thank you for the opportunity to comment on this draft report. If you have any questions regarding our comments, members of my staff will be available to answer them.

Sincerely yours,



Gary R. Nelson
Associate Director
for Compensation