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STATEMENT OF  
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BEFORE THE  
SUBCOMMITTEE ON CIVIL SERVICE OF THE  
HOUSE POST OFFICE AND CIVIL SERVICE COMMITTEE  
ON  
THE [SENIOR EXECUTIVE SERVICE]



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Madam Chairwoman and Members of the Subcommittee:

We are pleased to be here today to discuss our current and future work on the Senior Executive Service (SES). As you know, we have already issued a number of reports on various aspects of the SES and have a number of ongoing efforts to review SES issues. Specifically, we are reviewing the SES performance appraisal systems, the SES performance award process, and the conversion, transfer, and reassignment of SES members. As everyone expected, the SES has received close public scrutiny. While a number of questions have been raised over the viability of this program, we believe it is too early to assess its success or failure.

Before I get into a more detailed discussion of our work, there is one overriding issue that I want to mention. In my opinion, it is the key to the success or failure of SES. Much

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has been said about the use of SES bonuses to circumvent the present executive pay ceiling. Some people believe that the SES financial awards have been used as a compensation system for SES members and have not been based solely on performance.

If this practice occurs, it is somewhat understandable when you consider that virtually all SES members receive the same salary even though there are six SES pay levels. Given the fact that top level SES members have substantially more responsibilities or more difficult jobs than others, but at no extra salary, it is unrealistic to expect that there will not be a tendency on the part of some to use awards to recognize these differences. As we have said many times before, the best way to alleviate this tendency is to allow executive pay increases which will bring about appropriate differentials between SES pay levels.

#### SES PERFORMANCE APPRAISAL

The Civil Service Reform Act requires each agency to develop, according to Office of Personnel Management (OPM) standards, one or more SES performance appraisal systems designed to

- permit accurate evaluation of performance based on criteria which specify a position's critical elements;
- provide for systematic appraisals of performance;
- encourage excellence in performance; and
- provide a basis for determining eligibility for retention and for performance awards.

The Act is specific in requiring that certain features and procedures, which we will discuss later, be incorporated in all

systems. OPM was responsible for reviewing each agency's performance appraisal system to determine if it met these requirements. Approved SES performance appraisal systems for nearly all agencies became operational during fiscal year 1980.

The Act required that performance requirements be established annually for all executives. The process for setting performance requirements is to be a collaborative effort between the executive and supervisor and must include both organizational and personal objectives. Typical areas of performance measurement cited in the Reform Act are productivity, quality of work, timeliness of performance, cost efficiency, and progress in meeting affirmative action goals.

Agency performance appraisal systems must have at least three levels of competence: fully successful, minimally satisfactory, and unsatisfactory. Many agencies have one or more levels above fully successful. Only SES executives with ratings of "fully successful" or above are eligible for performance awards. A "minimally satisfactory" or "unsatisfactory" rating indicates a need for corrective action and failure to improve can result in removal from SES.

We believe it is still too early to determine how well agency SES performance appraisal systems are working or how valid, fair, and objective they are for making pay and other personnel decisions. It is not too early, however, to surface problems and concerns. Experience with pay-for-performance,

objective-oriented systems outside of the Federal sector indicates it generally takes several years or previous experience with a similar system to implement effective appraisal processes. Most agencies have not had this time or experience.

Testing of the systems' processes with practice and revision to procedures is normally needed before systems begin to operate smoothly and reliably. Most SES systems have been in use for only about a year and a half and have gone through only one cycle of appraisals. Furthermore, few agencies pretested their SES systems. Therefore, these first few years will be experimental and learning periods. Agencies can expect to encounter difficulties with their systems and our work has already revealed some of these difficulties.

This is not to say that agencies have not made strong efforts to implement good systems. We believe most are taking the challenge seriously. It just takes time and it will be several years before a realistic assessment can be made of how effective agency systems are.

We are currently identifying existing and potential impediments to the successful implementation of SES performance appraisal systems so agencies and OPM can take corrective actions before problems become too difficult to overcome. We developed and administered two Government-wide questionnaires in May and June 1980. One questionnaire to agency heads in organizations with 20 or more SES incumbents was sent to 53 agencies which

employed more than 95 percent of the Government's 6,893 SES incumbents (as of December 31, 1979). The questionnaire asked about implementation procedures, system design and processes, attitudes of executives, and the extent and usefulness of OPM's guidance and assistance.

The second questionnaire, sent to a Government-wide random sample of 2,085 SES executives, asked about their agencies' SES performance appraisal systems and their personal attitudes toward them.

We received a 100 percent agency response and an 83 percent response from the SES executives. Answers did not vary significantly with the size of the agency, agency affiliation or other demographic characteristics such as race, ethnicity, sex, years of service, etc.

The agency questionnaire results revealed that many procedures which experts agree should be employed in establishing effective performance appraisal systems were not used or only minimally used when implementing SES performance appraisal systems. For example, most agencies did not test their systems before implementing them, and had not established specific plans for evaluating their systems. As of October 1979--the date by which OPM required that systems be implemented--agencies often had not trained many of their users in the processes and skills--such as setting performance requirements, appraising performance, and counseling--needed to effectively carry out

the performance appraisal process. Although most agencies indicated they would eventually train more of their executives, a majority indicated that only a day or less of training would be provided. Reasons agencies gave for the lack of testing and training included short implementation time and lack of agency resources.

About 60 percent of the 53 agencies surveyed indicated they received adequate assistance from OPM and did not want more OPM guidance when implementing their performance appraisal systems. The remaining 40 percent received some guidance but would have preferred additional and more timely guidance.

Despite our concerns about how agencies implemented SES performance appraisal systems, sampled SES executives appeared to be generally optimistic about the future of the SES performance appraisal process. At least a majority of the executives saw value in the appraisal process. About 60 percent were receptive to having a results-oriented performance appraisal system linked to a rewards process and most felt that performance appraisal was off to a reasonably good start in the SES.

The remaining 40 percent of the SES executives who responded to our questionnaire, however, were indifferent to, against, or had no opinion about their agency's performance appraisal system--they were unwilling to say that they supported their agency's system. About one-third did not think that setting objectives and receiving performance feedback would improve

performance and almost 40 percent did not think bonuses and rank awards were likely to contribute to improved performance. A majority of the total respondents did not feel that overall morale would improve as a result of SES performance appraisals.

Based on questionnaire comments written by SES executives, reasons for not fully supporting their agency's performance appraisal system include:

- Failure to see value in the appraisal process and consequently feeling it is a distraction forced on them which makes their jobs more difficult.
- Belief that
  - (1) their specific performance appraisal system is flawed,
  - (2) their system cannot work in a bureaucratic environment or will require them to step up bureaucratic gamesmanship,
  - (3) their system was imposed as a disciplinary measure, with the underlying implication that senior executives are generally underworked, overpaid and incompetent,
  - (4) external politics will prevent delivery of a bonus program to the extent originally promised to the SES as an inducement to join, and
  - (5) internal politics, favoritism and pay compression problems will destroy the rating process.

While we do not believe projections should be made nor conclusions drawn from these perceptions, attitudes, and beliefs, they signal areas for agency, OPM, and congressional concern as the system continues. The lack of pretesting SES performance appraisal systems prior to their use adds to the

possibility that problems will surface. Since untested systems are being used for decisions about retention, bonuses, and other personnel actions, we believe it is critical that agencies and OPM quickly develop and implement formal evaluation systems for SES performance appraisal systems to insure that they are valid, fair, and objective and that problems which surface are quickly addressed.

#### SES PERFORMANCE AWARDS AND RANKS

To encourage and reward excellence, the Reform Act provided that 50 percent of SES members with fully successful performance ratings could receive lump-sum performance awards (bonuses) of up to 20 percent of their basic salaries. In addition, career executives could receive the rank of Meritorious Executive or the rank of Distinguished Executive for sustained accomplishment and sustained extraordinary accomplishment. These ranks carry one-time, lump-sum payments of up to \$10,000 and \$20,000, respectively. The number of executives receiving them each year is limited to 5 percent and 1 percent of SES executives, respectively. Total dollar compensation (basic pay plus rank and performance awards) for these SES executives could not, in any 1 year, exceed the rate payable for Executive Level I (presently \$69,630). Noncareer SES appointees--who can comprise up to 10 percent of SES--are not eligible for performance pay or executive ranks.



### OPM guidance

In October 1979, OPM provided agencies with guidance on the payment of bonuses which reiterated the limitations and other provisions of the Reform Act and provided suggestions on establishing and administering SES bonus payment programs.

OPM told agencies that they should, as a matter of good management, guard against awarding maximum bonus amounts (20 percent of SES salary). OPM also recommended that generally no bonus payment of less than 3 percent of salary should be made. OPM said agencies were not required to award the maximum number of SES bonuses and should carefully avoid granting awards to 50 percent of the SES total.

The first bonuses under this system were paid in 1980 by the Small Business Administration, the National Aeronautics and Space Administration, and the Merit Systems Protection Board. Concerned about the number and amount of these awards, the Congress, in a supplemental appropriations act, reduced the number of SES members who could receive awards from 50 percent to 25 percent.

On July 21, 1980, OPM further limited bonuses to 20 percent of the eligible career executives unless OPM approval was obtained. This was a response to strong congressional concern that the 25 percent limit be viewed as a ceiling, not the norm.

OPM also limited the size of bonuses--no more than 5 percent of bonuses could be 20 percent of salary; in total, no more than 10 percent could be 17 to 20 percent of salary; and in total, no more than 25 percent could be 12 to 20 percent of salary. OPM also suggested that although career executives are eligible for both bonus and rank awards, agencies should generally avoid giving multiple awards to an individual SES member in any 1 year.

OPM is gathering statistics on the SES program, including data on financial awards. We analyzed data available at OPM at the time of our review which covered about 5,000 executives, or 70 percent, of the SES.

#### Awards Going to Higher Levels

According to OPM data, awards were distributed among the six SES levels as follows:

- Fifty-five percent of level 5 and 6 executives received bonuses and ranks; executives at these two levels comprised 16 percent of the rated SES population, and they received 30 percent of the awards given.
- Twenty-eight percent of level 4 executives received bonuses and ranks; level 4 executives comprised 63 percent of the rated SES population and they received 60 percent of the awards given.
- Sixteen percent of level 1 through 3 executives received bonuses and ranks; executives at these three levels comprised 20 percent of the rated SES population and they received 11 percent of the awards given.

Agency officials cited such factors as the following for higher level executives receiving the largest share of awards

- job importance, complexity, and difficulty;
- degree of risk and responsibility;
- salary history, including promotions, pay adjustments, and length of executive service;
- organizational commitment (willing to move, serve on organizational task forces, participate as an instructor in training programs); and
- the attitude that no subordinate should receive greater compensation than his/her superior.

For the most part, these are factors customarily used to set compensation levels and are usually reflected in basic salary differences. In view of the salary compression brought about by the executive pay problem and the inherent difficulty in ignoring these factors when evaluating employees, it is not surprising they are affecting the distribution of bonuses and ranks.

Awards to Performance  
Review Board Members

A frequent criticism of the awards process has been that Performance Review Board (PRB) members--those who review and make recommendations on ratings and bonuses--are granting themselves awards. OPM statistics on 19 agencies showed that of 540 eligible PRB members, 224 (41 percent) received award recognition--167 bonuses and 57 rank awards.

At the request of the Subcommittee, we visited three agencies (Internal Revenue Service (IRS), State Department, and Department of Energy) and found that of the five PRB members

at IRS, two received rank awards and two received bonuses; at State, of the eight PRB members, one received a rank award and two received bonuses; and at Energy, three of the five PRB members received rank awards and two received bonuses. Virtually all agency officials told us that they carefully selected top performers for their PRB to help instill confidence in the process, thus it was not unusual for them to receive awards.

Rank awards were decided on by panels of executives from within and outside the Government. In our visits to agencies we found rank award recipients were ruled ineligible to receive a bonus. Further, at the Department of Energy, three PRB members were selected to serve in part because they had received rank awards and therefore were ineligible for bonus consideration.

All three agencies had procedures that precluded PRB members from considering themselves or any person they had rated for performance awards. At IRS, for example, PRB members' performance was not reviewed by the IRS/PRB but by the Treasury Department's PRB.

Most Agencies Awarded Maximum  
Number of Allowable Bonuses

Many agencies exceeded OPM's guidance to limit bonuses to 20 percent of career eligible executives. These were presumably approved by OPM; however, OPM did not always document this because some approvals were given verbally by the former OPM Director or Deputy Director.

Two of three agencies we visited exceeded 20 percent. State Department gave eight performance awards (21.6 percent) rather than seven which would have complied with OPM guidance, but they reduced the award amounts to the individuals so the total amount awarded stayed about the same. IRS gave 49 awards (21.4 percent) instead of 46. Both had received approval from OPM to exceed 20 percent.

To be eligible for an award, a career executive must have received a rating of not less than "fully successful" in the most recent performance appraisal. During the first SES appraisal period, however, some executives in many agencies did not receive performance ratings because they did not serve enough time as a senior executive. If eligibility had been restricted to 20 percent of those who had received a rating, fewer awards could have been made.

#### Other Issues

Criticisms have been heard about executives receiving multiple awards, receiving awards and leaving Government service, and reemployed annuitants receiving awards and ranks.

Some of this has occurred, but there may be valid reasons which would be evident from the individual justifications which we have not reviewed. For example, while OPM guidance precludes incentive awards for sustained superior performance, it does allow incentive awards for an SES member's specific one-time accomplishment, a suggestion, invention, or specific

achievement. Moreover, since awards are in recognition of past service, we do not believe it is wrong that awards were given to executives who later left the Government.

OPM's statistics on almost 5,000 executives showed that 22 executives received both a performance award and an incentive award; 2 received both a Presidential rank and a performance award; and 3 executives received both a Presidential rank and an incentive award.

Of executives who left the Government, 35 previously received a performance award, 7 received a Presidential rank award, and 14 received an incentive award. Of 134 reemployed annuitants whose performance was appraised, 42 received a performance award, 9 of whom later left Government service; 16 received Presidential rank awards, 2 of whom left; and 4 received incentive awards, 2 of whom left.

SES CONVERSIONS, TRANSFERS,  
AND REASSIGNMENTS

In July 1980, we reported that OPM did a credible job as the focal point for conversion of positions and personnel into the SES when it started. At your request, we are currently reviewing how the system works under Presidential transition including the propriety of conversions from noncompetitive to competitive positions.

From September 1, 1980, to January 26, 1981, 10 individuals were converted from noncareer SES to career SES positions. OPM analysts reviewed the competitive selection

process before these conversions were sent to OPM's Qualifications Review Board. Based on our review, these conversions appeared to be proper.

The Civil Service Reform Act established a 120-day waiting period after the beginning of a new Presidential Administration before a performance appraisal and rating may be made of a career SES appointee and a 120-day waiting period before agency heads or immediate non-career supervisors can reassign or transfer executives involuntarily. We are monitoring the situation and we will undertake a review of such reassignments and transfers after the 120-day waiting period has passed.

That concludes my statement, Madam Chairwoman. My colleagues and I will be pleased to answer questions.