

## GAO Modified System [16]

NOTE: The content of this document has not been reviewed by legal counsel, nor does it represent a consensus view of the Design Team or indicate any kind of preference among options presented to the Senior Review Committee.

### Summary Description:

This option is modeled after (although not identical to) the General Accounting Office's (GAO's) current pay banding system for analysts and certain other analyst-related employees as well as its proposed pay banding system for administrative professional and support staff. The option includes a structure of pay bands covering one or more GS grades, with pay progression within a band based on performance. Individual performance would be assessed using competency-based measures and standards and a numerical summary rating would be assigned. To determine within-band pay progression, employees would be grouped into four or five performance categories based on their numerical performance ratings, subject to guidelines on the percentage of employees that should be placed in each category. Base pay increases would vary depending on band level, performance category, and position in the band range (merit increase matrix table).

### Key Features:

#### Coverage:

This option is designed to cover all "white-collar" DHS employees who are now covered by chapter 53 of title 5. It could, also, be adapted to cover all "white-collar" TSA employees under the authority provided by law to the TSA Administrator, and all Stafford Act employees under EP&R's authority.

- This option is a pay banding system that uses competencies to determine band level and to assess performance. Competency assessments would also be used in making promotion decisions and in determining awards.
- DHS would create a limited number of job families (e.g., 10-20)—i.e., groupings of jobs that have similar types of required competencies. DHS would then establish a smaller number of pay band structures (levels linked to salary ranges), each of which will apply to one or more job families. Pay ranges would be roughly related to GS rate ranges (may or may not have overlapping band ranges).
- Supervisors and managers would be in a separate job family with a separate pay band structure.
- DHS would pay locality payments identical to GS locality payments. Bands may be adjusted to take into account special rates for GS employees.
- All employees would be entitled to general increases equal to structural (rate range) increases.
- Base pay adjustments in addition to the general increase would be based on individual performance. Using percentage guidelines, employees would be placed into one of 4-5 ranked categories based on relative performance (e.g., 8-12% of employees should be in the top performance category, 18-28% in the next category). DHS would establish a matrix table that provides varying increases by band level, position in range, and performance category. Performance pay increases would range from 0 to 6%. Employees who hit the band maximum would receive a payout in the form of a lump-sum payment. The average performance-based base pay increase would be expected to be in the 1.5 to 2% range.
- Management pay panels would rank employees based on performance appraisal scores. For each relevant competency, an employee would be assigned a rating and point value based on established competency level descriptors/standards: role model - 5, exceeds expectations - 3, meets expectations - 1.5, below expectations - 0. The competency ratings would be summed to produce a total score. Managers would review the range of scores and determine break points for the performance categories using the percentage guidelines and making judgments about relative performance.

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- Individual performance expectations would be aligned with the mission, strategic goals and objectives, and the team/office plans. Goals would cascade from top down to front-line employees. Organization-wide and team performance information would be tracked on a quarterly and annual basis.
- Among the competencies against which employees would be rated would be a competency on "achieving results" and a competency on "collaborating with others."

### Sub-Options:

- Require TSA to adopt an identical pay and performance system for its employees.
- Require EP&R to adopt an identical pay and performance system for Stafford Act employees.

### Relation to Other Options:

- This option covers the pay, classification and performance management systems.
- It could work with any labor relations, discipline and appeal system.

**Implications** (This section contains "possible advantages/benefits" and "possible problems/challenges" and "other implications" suggested by design team members. The views expressed in these "implications" represent the opinions of one or more members of the design team and therefore reflect sometimes opposing points of view. These opinions do not reflect the collective judgment of the entire design team on any of the issues addressed, nor have they been reviewed by legal counsel.):

### Possible Advantages/Benefits

- The system places more emphasis on individual performance than the GS system, which could help promote a performance culture. Giving different pay increases based upon performance could reduce any de-motivating effects of giving top performers and standard performers the same pay increases. Top performers could feel that their work is being more equitably compensated and might be more likely to stay in DHS. Some employees may be more motivated to improve their performance.
- Pay for top performers could be more competitive in the labor market.
- The system is modeled after a system developed and used by GAO (for some of its employees), which some believe has been very successful.
- Allocating base pay based on relative performance could be a more mission-centered, strategic use of limited payroll dollars.
- The guarantee of the full general increase (equal to the structural increase) will be important to many employees, and could be help to maintain equity with market outside DHS (private sector and General Schedule).
- Use of the GS locality pay program simplifies administration. If base ranges are roughly linked to GS base pay ranges, and if GS locality pay is used, then this system should not create serious interagency competition problems.
- This system should provide a simpler classification system with fewer levels that can be administered largely by managers.
- The system manages costs through the use of percentage guidelines for ranked performance categories in combination with a performance pay matrix with fixed increases.
- All pay increases would be provided at a single point in the year, which could make the increases more significant and potentially more appreciated.
- For jobs in which it may be difficult to make distinctions in individual performance because of the nature of the work or the degree of interdependence; the use of a competency approach could promote high performance by rewarding employees' acquisition and demonstration of skills/competencies.

Possible Problems/Challenges

- If this system results in employees receiving less compensation than they would have received under the General Schedule, it may lessen acceptance of the system. A sub-option, based on the GAO model, would include a pay protection feature (annual comparison to GS rate and adjustment if below); however, this would be an administrative burden.
- Some employees may not have confidence in current performance appraisal process, which could result in concerns about implementation of a pay for performance system.
- Some believe that pay for performance could result in competition between employees and lessen incentive for teamwork and cooperation.
- If training and job assignments are not distributed in a fair and equitable manner, employees' opportunity to acquire or demonstrate skills needed for advancement could be limited.
- Making pay more performance sensitive may concern employees who value the stable, predictable nature of GS pay increases. The lack of guaranteed step increases may lessen acceptance of the system.
- Providing the full general increase to all employees means that even those employees with a below expectations rating will receive a pay increase, which could impair efforts to institute a high performance culture. Funds used to provide pay increases to employees rated at below expectations could otherwise be used to help reward superior performance.
- Because this option does not call for use of additional funds to reward performance, it may not significantly motivate some employees.
- Since this option uses only existing funds, pay-for-performance is being funded by shifting pay increases from acceptable performers to high performers, which could de-motivate acceptable performers and result in workplace dissension.
- Use of the GS locality pay program means that the system is not very sensitive to occupation-specific changes in the labor market.
- Employees may feel that strict percentage guidelines that limit the number of employees who can be placed in the top performance categories are unfair—that there may not be significant performance distinctions between employees just below and above the percentage cutoff and that it may cause employees to be rated based on relative performance standards. This could de-motivate employees who are not placed in the higher categories.
- If DHS includes employees in the entry level band from the performance-based pay progression process, thus discontinuing the GS practice of rapid pay progression for developmental positions, then the loss of the value of the current system of career ladder promotions could lessen acceptance by employees currently in career ladder positions, since new employees could be hired at higher pay rates.
- The system will increase the speed of pay progression for many employees who are near the top of the GS rate range before conversion. More employees will hit the maximum rate sooner.
- Some believe that not providing external appeal rights to an independent third party could reduce management accountability and may lessen acceptance of the system. A suboption provides external appeal rights.
- Some believe that not allowing collective bargaining over system design would be contrary to the intent of the Homeland Security Act and lessen employee acceptance of the system.
- If this system is insufficiently funded, there is a risk that it could demotivate employees.
- Limitation of pay-band rates to the parameters of the current GS rates could result in promoting top

performers and experts to supervisory or management positions as a means of reward or recognition. Since not all of these employees are well-suited to these positions, promotion of these employees out of the jobs in which they are performing at a high level may diminish their contribution to the agency mission. This problem would still exist even with higher pay caps as long as supervisors/managers were placed in higher pay bands with greater pay potential.

Other Implications

- Unless the current labor relations system is modified, a DHS independent pay system, including the rates of pay, would be subject to collective bargaining.
- Pay for performance systems may not be appropriate for all occupational groups.
- In order to implement this system effectively, a strong and well-managed performance management system is required. The performance management system could be implemented prior to implementation of the pay system, which might promote employee confidence and acceptance of the pay for performance system.
- Competency based systems incorporate a strong career development culture and, therefore, must be adequately funded to achieve its overall objectives.

Cost

- The grouping of jobs into a limited number of job families means that some jobs could have higher pay potential than they would have under the GS. This has long-term cost implications even if annual pay adjustment costs are controlled.
- Transition of employees to the system would require “buying out” employees for accrued time toward their next step increase, in order to promote employee acceptance of the new system. Offsetting adjustments could be made in the performance pay matrix during the first year or two.
- There will be transition-related administrative costs associated with training and communications.

**Evaluation in Terms of Guiding/Design Principles:**

Mission Centered

This option places greater emphasis on individual performance, which may help improve organizational performance. It would help create a more performance-oriented organizational culture where poor performers are held accountable and top performers are recognized and rewarded, consistent with their contributions to mission accomplishment. The strategic allocation of limited payroll dollars based on individual performance may help retain higher-level performers and increase their motivation. DHS would have a great amount of flexibility to design the performance program and to tailor goals, standards, etc. to the specific mission of each category of employee.

Performance Focused

This option requires distinctions to be made among employees dependent upon the level of performance achieved to increase recognition of higher performers and increase motivation among all employees. Larger base pay adjustments will be provided to the top performers while poor performers would be held accountable through the denial of base pay adjustments beyond the general increase.

Contemporary and Excellent

The ability to give larger pay increases to top performers could help DHS retain those employees. The system will provide increased flexibility in setting and adjusting pay. Broader pay bands with open ranges

are consistent with contemporary HR practices in the private sector. Pay progression based on individual performance is also used in many successful private sector companies. The use of a competency-based approach to classifying jobs and assessing performance is consistent with the latest trends in HR management (contemporary).

Generate Trust and Respect

To the extent this option produces a system that values and rewards performance in an understandable, rational, and fair way, it will be respected by employees. Supervisors and managers have a key role in explaining the system, communicating clear expectations, providing feedback, and in fairly appraising individual performance. This system also ensures that employees have an opportunity to give feedback on the system operation so that weaknesses or misperceptions can be corrected.

Based on Merit System Principles and Fairness

This option is built upon a classification framework that continues to provide for internal equity based on work level (associated with a band or pay range), but with fewer work levels requiring classification distinctions. Within any job family, employees are placed in a band based on standardized criteria. Employees are still protected by title 5 merit system principles and bars against prohibited practices. One merit system principle provides that employees should receive equal pay for work of equal value with consideration of labor market rates and with appropriate incentives for excellence in performance. In comparison to the GS system, which primarily focuses on internal equity, this option places more emphasis on individual equity (based on individual performance).

**Transition & Implementation:**

- Training is essential to enable effective implementation
- Because this system is fundamentally different from the present longevity based system, piloting could be considered prior to full implementation.

Detailed Description By System Component and System Element

B		Base Pay System
System elements:		Summary description:
1	Structure of pay ranges	<ul style="list-style-type: none"> <li>• Replace GS grades with bands. The band would be linked with GS rate ranges. The maximum base rate would equal the GS-15, step 10, base rate. [Note: GAO's analyst bands do not exactly link to GS rates but are close.] The bands would overlap, consistent with the overlap between GS grades.                             <p style="margin-left: 20px;"><i>Sub-option:</i> Provide no overlap between bands, which would require determining the appropriate break point and providing pay protection for employees paid above the band maximum. The bands would not be linked directly to GS rate ranges, since GS rate ranges overlap. (GAO's proposed new pay banding system would eliminate overlap.)</p> </li> <li>• Establish a limited number of job families (e.g., 10-12) consisting of jobs that have similar types of required competencies.</li> <li>• Establish a limited number of pay band structures (e.g., 3-6), each of which will apply to one or more job families.</li> <li>• Establish a separate job family and pay band structure for supervisors and managers.</li> <li>• Use GS locality payments on top of base rates. Also, bands may be adjusted to take into account special rates for GS employees. OPM may approve special rates for DHS-specific categories of employees as necessary to address staffing problems.</li> </ul>
2	Adjustment of pay ranges	<ul style="list-style-type: none"> <li>• Adjust pay band ranges in tandem with General Schedule base pay adjustments.</li> <li>• Adjust locality pay in tandem with GS locality pay.</li> </ul>
3	Pay progression methodology	<ul style="list-style-type: none"> <li>• Provide that all employees automatically receive general and locality pay increases and thus at least maintain their position in the band range. However, other base pay increases would be based on individual performance, as explained below.</li> <li>• After employees are assigned numerical performance appraisal scores using the competency-based performance management system (see table P), place them in a ranked performance category based on appraisal scores and percentage guidelines.                             <ul style="list-style-type: none"> <li>○ DHS would establish 4 or 5 performance categories. [Note: GAO used 5 performance categories in 2002 and is using 4 performance categories in 2003.] For example, if DHS established 4 performance categories, I through IV, Category I could represent "stand out" performance and Category IV could represent "below expectations" (i.e., average appraisal score is less than "meet expectations").</li> <li>○ DHS would establish percentage guidelines for placing employees in performance categories—e.g., 8-12% should be placed in Category 1 and 18-28% in Category II.</li> <li>○ A manager/executive panel would place employees in performance categories. The panel must request approval from an Executive Committee to exceed percentage guidelines. The panel must rely on numerical appraisal scores (see section P) for the fiscal year to determine employees' relative position (i.e., ranked order) but has some flexibility in determining breakpoints within percentage guidelines.</li> </ul> </li> <li>• DHS could exclude employees in an entry-level band from the performance pay adjustment process described in this section for the first 1-3 years, until they reach a certain pay level, to address the loss of pay that would occur by eliminating career ladders for those employees in the middle of the career ladder upon conversion. DHS could establish rules for setting entry and developmental-level rates that allow for more</li> </ul>

		<p>rapid pay progression, similar to what occurs in the General Schedule (e.g., rapid promotion from GS-7 to GS-12). This would address the issue of lost career ladder promotions which could have a significant adverse impact on these employees, especially when compared to new employees who were brought on-board at higher levels under the broad-band system. [Note: GAO has four fixed entry pay levels for analysts roughly equivalent to the minimum steps for GS-7, GS-9, GS-11, and GS-12. For the first two years, an analyst's pay is adjusted every 6 months using a special pay increase matrix table instead of using the regular merit pay program.]</p> <ul style="list-style-type: none"> <li>• Establish a performance pay increase table providing the amount of performance pay increases by category and by position in band sub-range. DHS would establish the amounts subject to the following requirements: (1) those in lowest performance category get a zero adjustment; and (2) those in highest performance category get no more than 6%. DHS could provide that increases vary by position in the band range so that larger percentage increases apply to those lower in the range (the learning curve principle). (Note: DHS would decide whether the percentages applied to the employees' individual basic rate or to the midpoint of the band range.)</li> <li>• As a percent of base payroll, the estimated aggregate value of the performance pay increases would be expected to be between 1.5 and 2 percent of total base payroll.</li> <li>• If a performance pay increase would cause an analyst to hit the band maximum rate, the unpaid increase may be converted to a lump-sum "performance bonus," if the employee is in a performance category for which bonuses are approved (as established by DHS policy). For example, DHS could limit bonuses to employees in the top two performance categories.</li> <li>• Performance pay increases would take effect at the same time as general increases linked to structural pay adjustments (i.e., first pay period in January). DHS would decide whether the performance pay increases are applied to pay rates in effect before or after any general increase. <ul style="list-style-type: none"> <li><i>Sub-option:</i> Provide that performance pay adjustments take effect with the last pay period beginning in December. [Note: This is what GAO currently does.]</li> </ul> </li> <li>• Employees in approved performance categories (as established by DHS policy) may also receive a supplemental performance award—e.g., \$1,000 for those in the top performance category and \$500 for those in the second highest category.</li> <li>• Performance pay increases, performance bonuses, and supplemental performance awards are prorated in some instances (e.g., partial year or service).</li> </ul>
4	Pay administration rules	<ul style="list-style-type: none"> <li>• <i>Pay for New Hires.</i> DHS would establish policy of setting pay for new hires. Employees could be hired above the band minimum based on education, superior qualifications, current salary levels, etc. (See related sub-option in section 3 above.)</li> <li>• <i>Promotion.</i> Staff must have a minimum of 1 year in a pay band to apply for a promotion to the next higher pay band or to move to another pay band structure. DHS would establish department-wide rules on promotion increases (e.g., 6-15% depending on band, but at least enough to set pay at the minimum of the higher grade.</li> <li>• <i>Within-Band Pay Reductions.</i> There is no provision for reducing an employee's pay within a band.</li> <li>• <i>Pay Protection.</i> Establish band and pay retention rules consistent with title 5 rules. <ul style="list-style-type: none"> <li><i>Sub-option:</i> Provide for pay retention only.</li> </ul> </li> <li>• <i>Conversion.</i> For employees who are on board at time the banding system is established, adjust their current GS base salary to include a special base pay adjustment to compensate them for the accrued value of their next within-grade</li> </ul>

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		<p>increase (i.e., prorated value based on time accrued toward the next within-grade increase).</p> <p><i>Sub-option:</i> For employees in the General Schedule at the time the pay banding system is established and who have no break in service, provide additional pay protection by comparing the employee's base pay rate at a given point each year to the rate the employee would have had under the GS system. Pay protection ceases when the employee is promoted or is suspended for any employee who receives one or more checkmarks on appraisal dimensions at "below expectations." (Limit this pay protection to 2 years? 5 years?)</p>
5	Managerial compensation	<ul style="list-style-type: none"> <li>The plan covers GS-equivalent employees, including GS-equivalent managers. Senior executives are not included.</li> </ul>
6	Appeals	<ul style="list-style-type: none"> <li>Employees may appeal internally a performance appraisal that has a base pay consequence.</li> </ul> <p><i>Sub-option:</i> Employees may appeal externally a performance appraisal that has a base pay consequence.</p>
7	Evaluation	<ul style="list-style-type: none"> <li>Collect data on performance ratings, performance pay distribution, etc.</li> <li>Conduct employee feedback surveys. Also have managers meet with groups of employees to discuss issues and concerns.</li> <li>Require executives to be evaluated based on results of data and survey results.</li> </ul>

C Classification System		
System elements:		Summary description:
1	Functions	<ul style="list-style-type: none"> <li>Same as GS—for workforce planning and for establishing pay ranges.</li> </ul>
2	Categorization of type of work	<ul style="list-style-type: none"> <li>DHS determines the definitions of job families.</li> <li>DHS uses OPM established occupational series and places employees in proper occupation.</li> </ul>
3	Work valuation method	<ul style="list-style-type: none"> <li>DHS establishes descriptions of the competencies required for each band level of each job family. Competencies could include skills, knowledge, behaviors, and ability to achieve results.</li> </ul>
4	Qualifications	<ul style="list-style-type: none"> <li>DHS determines any time-in-grade requirements associated with promotion to a higher band.</li> <li>DHS determines any other specific qualification requirements associated with band levels.</li> </ul>
5	Applying system	<ul style="list-style-type: none"> <li>Managers are responsible for ensuring that employees meet requirements for inclusion in an occupation and band level. HR staff may advise and review.</li> </ul>
6	Appeals	<ul style="list-style-type: none"> <li>An employee may appeal his or her band level internally.</li> </ul> <p><i>Sub-option:</i> Provide external appeal rights regarding band level assignment.</p> <p><i>Sub-option:</i> Provide external appeal rights only in the case of an involuntary reduction in band level.</p>



P		Performance Management System
System elements:		Summary description:
1	Purpose	<ul style="list-style-type: none"> <li>• Support measurement/appraisal of individual employee's performance (with focus on end results or accomplishments, to the extent feasible).</li> <li>• Link individual performance to organization performance/mission. Use to help employee understand their responsibilities and how their work supports GAO's mission and core values and contributes to GAO's strategic goals and objectives. Communicate expectations.</li> <li>• Encourage collaboration with others.</li> <li>• Use to determine employee training and development needs. Core training curriculum is directly linked to individual developmental goals and competencies.</li> <li>• Use as tool in coaching employees to improve performance.</li> <li>• Use performance appraisals as factor in promotion decisions.</li> <li>• Use performance appraisals to determine who receives certain pay adjustments, bonuses, or other awards.</li> <li>• Identify poor performers and (1) seek improvement, (2) find a better job fit, or (3) remove.</li> </ul>
2	Measures	<ul style="list-style-type: none"> <li>• Performance standards are based on a limited set (e.g., 5-10) competencies such as (1) achieving results, (2) collaborating with others, (3) representing agency, etc. There are four performance levels for each competency: role model, exceeds expectations, meets expectations, and below expectations. DHS would identify 3-7 work activities for each competency and provide written descriptions of each activity for two performance levels (meets expectations and role model) for each band. Thus, there are 6 performance level descriptions for each activity (3 bands x 2 levels).</li> <li>• DHS would validate competencies using employee surveys, interviews, and panels.</li> </ul>
3	Appraisal	<ul style="list-style-type: none"> <li>• Performance rating categories for each competency with point value in parentheses: role model (5), exceeds expectations (3), meets expectations (1.5), and below expectations (0). Point scores for all relevant competencies are added for a total score. (If an employee is not rated on a competency, the average rating for other competencies is assigned that competency. Thus, a total score can be used to compare employees to one another.)</li> <li>• Employees have the opportunity to provide self-assessments on each competency and describe three exemplary achievements at the conclusion of each rating cycle.</li> <li>• Each employee has a "designated performance manager," who is responsible for coordinating the performance appraisal. This addresses situations where employees have multiple supervisors over the course of a year. There is also a second-level "reviewer" who reviews the appraisals prepared by designated performance managers.</li> <li>• Use fiscal year as appraisal period. Appraisal feeds into January pay adjustment. There is a separate category ranking of employees based on total appraisal scores. (See Table B, section 3.)</li> </ul>
4	Communication vehicles	<ul style="list-style-type: none"> <li>• At the beginning of the cycle, team managers will meet to discuss team-wide goals and strategies, and these team plans will then be shared with all staff.</li> <li>• Designated Performance Managers (DPMs) will hold expectations discussions with their staff. Expectations discussions occur at the beginning of the cycle.</li> <li>• Delivering and receiving feedback should be occurring throughout the entire cycle.</li> </ul>

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P		Performance Management System
System elements:		Summary description:
		<ul style="list-style-type: none"> <li>• Staff expected to rate themselves against the competencies and also write about their outstanding achievements during the year. This will be input for the DPM doing the appraisal.</li> <li>• DPMs will meet with staff to discuss the final appraisal results and develop strategies for maximizing performance and further developing.</li> </ul>
5	Appeals	<ul style="list-style-type: none"> <li>• Employees may appeal internally their performance appraisal if it has a base pay consequence. <i>Sub-option:</i> Provide external appeal rights.</li> </ul>
6	Evaluation	<ul style="list-style-type: none"> <li>• Collect data on performance ratings, performance pay distribution, etc.</li> <li>• Conduct employee feedback surveys. Also have managers meet with groups of employees to discuss issues and concerns.</li> <li>• Require executives to be evaluated based on results of data and survey results</li> </ul>