INTERNATIONAL FEDERATION OF
PROFESSIONAL AND TECHNICAL ENGINEERS
AFL-CIO & CLC

Statement of
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Testimony of Gregory J. Junemann, President
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My name is Gregory Junemann. I am president of the International Federation of Professional and Technical Engineers.

I would like to thank Subcommittee Chairman Danny Davis, Ranking Member Marchant, and all of the Members of the Subcommittee for today's invitation. I would like to also extend a personal note of appreciation to Chairman Davis and his Subcommittee staff for giving IFPTE the opportunity to testify before you today. As a union representing tens of thousands of federal workers, IFPTE commends the Chairman for his support of our nation's civil servants, who strive to meet the needs of the taxpayers everyday. The Chairman is a true champion for working men and women and IFPTE is honored to be before your Subcommittee here today.

IFPTE is labor union representing over 80,000 highly skilled professional and technical workers in the private, federal and public sectors throughout the United States and Canada. IFPTE represents upwards of 20,000 Department of Defense (DoD) Civil Servants, and 1,800 plus Analysts at the Government Accountability Office (GAO). IFPTE also represents federal employees at the Department of Interior, the Department of Energy, NOAA, EPA, CRS, the Executive Office of Immigration Review and Administrative Law Judges at the Social Security Administration. Having said that, IFPTE has significant experience with Pay-for-Performance (PFP), particularly at DoD and GAO, where our members are either experiencing this first hand, or have been threatened by its implementation for several years now.

IFPTE is somewhat unique when it comes this controversial issue. While most of our Federal Locals have clearly said 'no' to PFP, some of our members do welcome the concept and believe that if properly and fairly implemented, it may be able to work. This is the case among our GAO membership. One thing is clear however, the proper application of PFP in the federal government has yet to be realized and one could argue that its success is many years away, if it is possible at all.

It is IFPTE's experience that PFP schemes, whether they be smaller demonstration projects or larger agency wide efforts at places like DHS and DoD, for the most part, have not worked in the Federal Government. Despite what supporters would contend, these pay systems have provided little evidence that productivity of the workers is enhanced. Quite the contrary in fact. IFPTE has seen negative impacts to the concept of teamwork, morale, potential problems related to safety in such places as shipyards, and discrimination towards women and minorities in many cases.

One of the most troubling trends with PFP recently has been the misguided belief by management that it is somehow acceptable to pick and choose who recieves the Congressionally mandated yearly pay raise intended for all federal workers that meet satisfactory ratings. Since when was it the perogative of management to unilaterally decide to circumvent Congress' intent on the annual pay increase through PFP systems? IFPTE believes that regardless of what pay system you are under, when it comes to the yearly pay raise approved by Congress for federal employees, there should be no winners and losers.

We at IFPTE are well aware of this 'race to the bottom' pracitce, both at GAO, and at the DoD through the National Security Personnel System (NSPS). In order to even start thinking about an effective PFP system, I think we can all agree that it would have to gain employee buy-in. Otherwise morale, recruitment and retention will suffer, and these are things the Federal Government can ill-afford.

As a foundation for any pay for performance system, IFPTE would argue that at the very least, pay parity among all federal employees that have 'satisfactory', or 'meets expectations' ratings should be achieved. This can be done by mandating that the annual Congressionally approved pay raise is guaranteed to all federal workers, as is the intenation of Congress. Given management's perogative to ignore Congress' intent on the pay raise, IFPTE believes that guaranteed pay parity between agencies and various pay systems can only be achieved legislatively. Obviously this is legislation that the union would ask your Subcommittee to champion through Congress.

The following two sections will outline IFPTE's experiences with PFP at DoD and GAO to support these assertions.

Section I: DoD NSPS

DoD Pay for Performance through the National Security Personnel System (NSPS)

The DoD has already developed and implemented their own version of PFP for managers and non-bargaining unit employees. DoD, purposely, did not include the Unions in the development stages of their implementing issuances for the new pay system. Recent Congressional action restored the Unions collective bargaining rights with regard to any new PFP system. From the Unions perspective, we obviously appreciate the ability to bargain over the new pay system, however, the bargaining is starting at the end of the development of the system, versus the beginning. This puts the Unions in the position of attempting to fix a system that has already been implemented. In medical terms, instead of being allowed to prevent a disease from spreading, we are now being called upon to perform the autopsy.

Since NSPS was more an ideological experiment by the Bush Administration aimed at destroying collective bargaining, and not a personnel and pay system intended to enhance efficiency and services to the taxpayer, IFPTE and many other unions have worked together as a coalition at preventing its implementation on workers represented by a Union. However, until the recent Congressional action, our members were on deck for NSPS implementation, so we are well up to speed on its impact.

Having said that, my testimony here today is in reference to IFPTE's concerns with the current PFP system being used for managers and non-bargaining unit employees, implementing issuances that pertain to PFP, and proposed schemes to implement the new system upon GS employees. All of which were developed without Union involvement:

- **The current PFP system would harm the younger inexperienced engineers by retarding their accelerated pay growth.** Most of our engineers are hired into accelerated advancement paths. For example, and engineer with a GPA >3.0 is hired as a GS-7, assuming the engineers performance is satisfactory, there is an accelerated advancement to the GS-9 level after 6 months, and 12 months following that increase to the GS-11. Engineers with a GPA<3.0 are hired at the GS-5 level, 6 months to the GS-7, one year to GS-9 and then 6 months to the GS-11. Some of these engineers at the Nuclear Shipyards are hired into extensive training programs, such as Shift Test Engineering or Shift Refueling Engineers, which upon completion they advance to the GS-12 level. These programs usually take two to three years to complete. The accelerated promotions are a key selling point when recruiting college graduates or these positions. There are significant bonuses associated with these training programs and maintaining the qualifications. Under the existing pay system, we can guarantee a prospective engineer that he/she will rapidly advance with satisfactory performance through the qualification process. Under the proposed pay-for-performance rules, there is no "guarantee" that with satisfactory performance they will be advanced rapidly and given the associated raises and bonuses. There is no guarantee that the money that would have paid for these accelerated promotions and bonuses will even be added to the pay raise pools for the money to be rewarded, and even if it is in the pay raise pool, the new "in-training" engineer will be competing against already qualified, experienced engineers for their share of the pay raise pool. The current system does include an Accelerated Compensation for Development Positions (ACDP) which allows for a one time subjective 20% within pay band increase and another one time subjective 20% increase when moving from band 1 to band 2. The existing GS system "guarantees" the new satisfactory engineer with up to four >23% promotions as they advance from the GS5, GS-7. GS-9, GS-11 and finally to the GS-12 pay grades, as opposed to the two subjective 20% pay raises.

- **The current PFP system would harm the mid-level engineers by retarding their natural progressive pay growth.** Upon conversion to the as proposed pay-for-performance system, our mid-level engineers, who have reached their working level (generally GS-11 or GS-12 positions) and are still progressing through the within grade step increases would be entitled to a one time pro-rated within grade step increase. If they have performed satisfactorily for 26 of the required 52 months between step increases they would receive a 50% of the step increase upon conversion. It should be noted that "buy-in" is done based on today's GS pay scale, not the pay scale with a potential Congressionally approved pay raise the following year when the actual step increase would have taken effect. Also, this is the last "step increase" that engineer will ever receive under "pay-for-performance". Junior GS-11 or GS-12 engineers can expect up to 9 step increases (depending on the initial step they were promoted into the GS-11 or GS-12 grade). Each of these step increases involves approximately a 3 to 4% raise. Each of these step increases is based upon satisfactory job performance. Under the proposed pay-for-performance system, the mid-level engineer would have to unfairly compete against a senior, experienced GS-11 or GS-12 engineer for these raises. This situation would provide quite the dilemma for management. If the pay pool raises are award based on the performance of the individuals, then statistically, the senior engineers would more than likely out perform the mid-level engineers. The senior engineers would be rewarded with higher pay raises/bonuses then the mid-level engineers, this would have a de-motivating effect on the mid-level engineer. Conversely, if management tries to compensate for the obvious inequities in the proposed pay-for-performance system, the senior more experienced engineers will be de-motivated since the mid-level engineer was rewarded at a higher level for less output. The most likely outcome would be that all levels of engineers would be funneled into the "3" rating, to be rewarded equally, those denying the mid-level engineer the previous step increase raises.

- **The current PFP system would harm the senior engineers by capping their normal pay growth. This could ultimately be considered age discrimination based on the distinct group of employees that are unfairly affected.** The current proposed pay-for-performance implementing issuances require the DOD to increase the minimum pay of all pay bands, no less than the Congressionally-mandated government employee yearly raise. However, there is no mandate to increase the maximum pay of each pay band to the yearly pay raise. This allows the DOD to arbitrarily establish a pay cap on senior engineers. The DOD implementing issuances to require the engineers at the top of the pay band to be compensated, but without a corresponding pay band increase the compensation would be in the form of a bonus, rather than a pay raise. Also, current DOD implementing issuances allow the use of "internal control points" within each pay band for specific jobs/positions. The use of these internal control points is essentially an unfair pay cap on specific jobs/positions. For example, the four nuclear Shipyards put forth a proposal that the Radiological Control Technicians (RCT) with a current working level of GS-10 would have an internal control point within their pay band equivalent to the GS 10, Step 10 pay tables. Therefore, a senior RCT who had already reached the GS-10, step 10 level prior to converting to the pay-for-performance system would never be able to receive a pay raise more than the congressionally approved raises to the corresponding GS-10, step 10 pay scales. Again, any the RCTs would receive a bonus to compensate for the pay difference. (It should be noted that the corresponding regulations for management, GS/GM 13s and above, allow for up to 20% increase in the corresponding GS scale.) The new proposed pay-for-performance system would allow the DOD to "reward" senior engineers with bonuses vice the yearly pay raises. Since, all compensation through pay-for-performance is based on a percentage of one's pay, than a bonus is truly a "one-time" reward were a pay raise has a continuing "compounded-interest" effect on an employee's pay.

- **The current PFP system would continue to harm the retired engineer by reducing their TSP contributions and affecting their retirement pay.** Every little effect on an employee's base pay has multiple ramifications to the employee. Firstly, when the government converted from the Civil Service Retirement System (CSRS) to the Federal Employee's Retirement System (FERS), the Thrift Savings Program (TSP) was created to allow FERS employees to contribute to their future retirement with a percentage matching funds from the federal government based upon the amount the employee contributed to the TSP fund. These matching funds are all based upon a percentage of an employee's pay. Every reduction in an employee's pay is a corresponding reduction in matching funds from the federal government to the employee's retirement fund. Also, since retirement pay is based upon a percentage of the employee's salary, every change to an employee's salary has an effect on the employee's potential retirement pay. As mentioned above, a bonus is merely a "one time" reward and in actuality when a bonus is given to supplement a pay raise it has a cradle-to-grave effect on the employee.

- **The current PFP system would not properly reward high performing organizations.** Another downfall of the proposed system is it only rewards high performing "individuals", there are no provisions to reward high performing organizations. The organization will only receive the amount of money for their pay pool that they would have received if still under the GS system. It is a rob Peter to pay Paul system. High performing organizations will likely have a higher number of high performing individuals, but with the same pot of money you cannot truly reward all of the high performing individuals in a high performing organization. To truly reward high performing organizations, more money would need to be added to the organizations pay pools than they would have received under the GS system. Based on the information on the NSPS website there is no compensation given to the pay pool to recognize the need for a larger pay pool for these organizations. With out a larger pool of money for pay raises, a quota system would have to be established to reward people and/or everyone would be rated at "3" and receive the basic pay raises.

Now, we have all heard and read plenty about the 2007 Pay-For-Performance Payout for the first Spiral of workers under NSPS. The DOD has released to the public that the average payout for 2007 for employees under the pay-for-performance system was a 7.6% payout. To date the DOD has not released any supporting documentation to discuss how this payout average was calculated. The following is copied directly from the DoD sponsored NSPS website:

> *Performance-Based Pay Increases*
> *For 2008, payouts are effective on January 6, 2008. Employees who receive a final rating of record of 3 or higher are eligible for performance-based payouts. Pay pools are used to manage the reward process, and each is funded based on a percentage of the total base salaries of employees in the pay pool.*
> *The pay pool fund consists of three elements:*
> ***Element 1** – Represents base pay funds historically spent on within-grade increases, quality-step increases, and promotions between General Schedule grades that no longer exist in NSPS. Element 1 funds are typically paid out as base salary increases but may also be paid out as bonuses. For 2008 payouts, this percentage is 2.26% in the aggregate and may vary by pay pool.*
> ***Element 2** – Represents funds available from the GPI. Money from this source is used for base salary increases. For 2008 payouts, Element 2 is set at 1.0 percent (40% of the base salary increase of the GPI).*
> ***Element 3** – Represents funds historically spent on performance-based bonuses. For 2008, this amount varies by organization.*

Keep in mind, this is the very same DoD that led Congress and the public to believe that the total cost to implement NSPS on upwards of 700,000 DoD workers would only be $158 million. That myth was later debunked by GAO, which brings me to this point: The DOD is intentionally misleading employees by simply releasing a "number" without releasing the data that supports their number. This 7.6% payout includes the one time pro-rated within grade increase upon conversion. Also, as stated at the NSPS website, the pay pool includes the money that was historically spent on performance based bonuses. Mathematically, the DOD did not spend one additional dollar on pay raises than they would have spent without the pay-for-performance system. It should be noted that the majority of the employees in the current pay-for-performance system are managers that would have received significant Performance Appraisal Rating System-Management (PARS M) bonuses, which they would have received anyway. The non-managers are not eligible for PARS M bonuses, therefore their actual average payout would be significantly less than the managers.

Another concern about the recent PFP payouts to the managers is that the "funds historically spent on performance based bonuses" is an "organizational" pot of money. The majority of managers under pay-for-performance work in organizations that have bargaining unit employees. The money allocated for bonuses is for the entire organization, not just for managers. Therefore the money removed to "reward" these managers was from the money that should have been allocated for the entire organization, not just for managers. This means that the bargaining unit employees in these organizations will not have the same proportional money set aside for their performance based bonuses under the GS system. Again, the DOD has robbed Peter (bargaining unit employees) to pay Paul (managers). **Congress should ask the DOD to release any and all data relating to their 7.6% payout, to truly give transparency to their misguided pay system.**

Note: The following IFPTE Members contributed to Section I of this testimony: Mark Nelson (IFPTE Local 4), and Jim Winward (IFPTE Local 3)

Section II – GAO

GAO Employees Generally in Support of the Concept of Pay for Performance but Concerned About Its Implementation

Most GAO employees support the concept of a pay-for performance (PFP) system at GAO. Accordingly, the GAO union has supported a PFP component in negotiating for our 2008 pay increase. However, GAO's employees have raised significant concerns specifically with the market-based compensation system that was implemented at GAO in 2006.

<u>Background</u>

GAO was among the first agencies to implement a pay for performance system in the federal sector in the late 1980s. While most employees at that time expressed concern about how this new system might affect their pay, GAO employees fared as well or better than their counterparts under the General Schedule (GS) over time and became staunch supporters of pay banding and pay for performance systems. However, the recent changes to the pay for performance system at GAO have raised significant concerns with GAO employees. Employees are concerned that the flexibilities afforded by the GAO Human Capital Reform Act legislation in 2003, have been used to employees detriment. Specifically, the restructuring of the Band II analysts, the lowering of some pay ranges, and the implementation of a performance management system which is both confusing and inequitable, are chief among employee concerns. Despite these serious concerns and an unprecedented 2 to 1 vote by GAO Analysts to unionize under the IFPTE in September 2007, GAO analysts continue to support the concept of pay-for-performance, if and only if it does not result in lower pay for GAO employees when compared with their General Schedule counterparts. Unfortunately, this has not been the case since GAO implemented its market-based pay system in 2006.

GAO employees are generally accepting of performance-based pay systems, which have been in place at GAO since the late 1980s. When GAO first established PFP, then Comptroller General (CG) Charles Bowsher stated that the system would allow greater flexibility for staff and assured them that no one would lose purchasing power as a result of going to PFP. Further, he guaranteed that staff would not be any worse off under PFP than they would have been under the General Schedule (GS) for the executive branch. CG Bowsher continued to provide both a pay increase comparable to the executive branch cost-of-living adjustment and a merit based increase that differentiated based on employee's contribution.

GAO took steps that sustained employee acceptance of the pay for performance system. First, retention of COLAs that were the same as the executive branch resulted in general acceptance of the pay system. Additionally, GAO continued to emphasize to employees that everyone brought value to the team – it was understood throughout GAO that everyone did not have to serve in lead roles, that working as a team should be the focus, not hierarchy.

However, from the beginning of his tenure as Comptroller General, Mr. David Walker began to take steps to change the existing pay-for-performance system. When he was sworn in as CG, he stated that the organization was "out-of-shape" because some staff at the Band II level were not performing commensurate with the duties of an Analyst-in-Charge (AIC) or providing equal pay for equal work. He also asserted that ratings generally were too high. To this end, the "GAO Human Capital Reform Act of 2003" granted the Comptroller General the authority to reshape and modify GAO human capital policy, including flexibilities concerning GAO's pay system. With his new authority, the CG implemented sweeping changes to both the performance-based pay system and the performance management system that is its underpinning.

Employee Reaction to the New Performance Based Pay System

Employees are concerned about GAO's performance-based pay system (implemented in 2006 under the Act) because it offers them smaller pay increases than the prior system. GAO's original system offered full cost-of-living (COLA) adjustments to all employees who performed satisfactorily, and competitive performance-based increases to all who performed satisfactorily or better. Employees with the highest performance ratings received performance based increases that were significantly larger than those who performed satisfactorily. In contrast, under the current performance based-pay system, employees receive sub-standard COLAs (which management refers to as across-the-board increases), and many employees who perform satisfactorily receive only small performance-based increases.

Employees concerns are not with the concept of a 'pay for performance' system, but with the specific implementation of the ‘market-based’ pay for performance system implemented in 2006. This resulted in the assertion that employees were paid above market wages, and a system that has since slowed-down pay increases for many GAO employees. This slow-down has impacted both the COLAs and the performance-based-pay compensation (PBC) increases that comprise pay increases.

Among employees’ chief concerns are that GAO’s new market-based PBC component of their annual salary adjustments is based on an inconsistent, poorly understood methodology that lacks the transparency, objectivity, and fairness that are GAO’s core values. These concerns, coupled with employee dissatisfaction over GAO’s reassignment of about two-thirds of its band II analysts into a lower pay band (band IIA) due to GAO’s interpretation of the Human Capital Reform Act of 2003[1], were key reasons why GAO employees formed a union.

Market-Based Pay for Performance as Implemented at GAO Raises Some Controversial Issues

The lack of transparency and the complexity that characterizes GAO’s PBC, have resulted in confusion and controversy over the system. To explain employee concerns about GAO’s PBC, it is first necessary to explain how GAO’s pay system works.

Controversial Implementation on Performance Ratings

Under the market-based PBC system, employees’ raises are directly linked to their performance ratings. Performance ratings are converted to a standardized rating score (or SRS) that determines how far above or below average each employee’s rating is compared to employees who are on the same team and in the same pay band. This score, effectively ranks employees with a number between -3 and +3, where -3 corresponds to the lowest rating, +3 to the highest, and 0 to the average rating. Next, GAO’s management decides on the average % merit increase that employees will receive (also known as the budget factor). The performance standardized rating score is then added to the average percentage merit pay increase, and the result is the % increase that each employee will receive.

For Examples:

[1] According to the testimony by Anne Wagner, GAO’s Personnel Appeals Board General Counsel, this interpretation was misinformed and the reassignment of analysts constituted illegal demotion. See Wagner, Anne *Testimony before Senate Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia and the House Subcommittee on the Federal Workforce, Postal Service, and the District of Columbia* (Washington, D.C.: May 22, 2007)

In 2008, using management's original proposed budget factor of 2.5%.

- An average employee, with a standardized rating of 0, will receive an increase equal to 2.5% of the "competitive rate," roughly the GAO-determined mid-point of that analyst's range[2].
- An employee in the bottom third of his or her peer group with a standardized rating of approximately -1 would receive a PBC 1% less than average, or approximately 1.5%,
- An employee in the top third of his or her peer group would receive at least 1% more than average or 3.5%[3].

<u>Controversial Implementation on Merit Pay and Bonus</u>

Another component of the system that has been controversial is that the market-based PBC may be paid as either: (1) a merit increase – a permanent increase in basic pay, (2) a performance bonus --a one-time lump sum payment, or (3) a combination of both. This has been controversial because the actual increase to base pay is less than the published increase, which along with pay, has a negative effect on all benefits that are linked to pay. In 2005 and 2006, a portion of the PBC increase was paid as a bonus,

For Example:
In 2006, the performance bonus amount averaged about 1/2 of the total PBC. Therefore, GAO's published PBC amount for 2006 of 2.15% (see table 1 below), included a base increase of about 1.075% and a bonus equal to 1.075% of an employees pay. As a result, base pay increased by only 1.075% merit + 2.6% across-the-board for 3.675% average total increase in base pay. This resulted in lesser pay increases over time,[4] and lesser amounts for benefits, including pension (FERS or CSRS) and employer contributions to the pension.

<u>Market-Based Performance Based Compensation Implementation Lacks Transparency</u>

Yet another controversial component of the market-based PBC system is related to its lack of transparency and consistency, which has resulted in confusion among employees as to how the system works and uncertainty about how and when GAO employees receive pay adjustments. Many GAO employees have complained that they do not understand how the PBC amount is calculated, and therefore do not feel motivated by a pay-for-performance system that they do not understand. This lack of understanding is partly due to a rating score methodology that is based on standard deviations. The uncertainties in the system, such as GAO employees receiving the 2006 increase one pay period later than Executive Branch employees, and the 2007 increase three pay periods later compound the lack of transparency,

[2] GAO commissioned Watson Wyatt to study the market and recommend the competitive rate.
[3] These numbers are for illustrative purposes only, and do not represent an actual rating score.
[4] A CRS study commissioned by this committee illustrates the erosion of pay over time and loss of purchasing power to a GAO employee. See Copeland, Curtis *"Implementation of the New Pay System at the Government Accountability Office"* The Committee on Oversight and Government Reform Subcommittee on Federal Workforce, Postal Service, and the District of Columbia House of Representatives (Congressional Research Service: Washington, D.C.: March 22, 2008)

add to employees' frustration, and result in wasted time on the part of employees' in trying to understand how the system works.

Market-Based Performance Based Compensation Implementation Denies Raises to Some Employees

One final controversial component of the PBC is that pay ranges may include a "speed bump" that blocks pay increases for employees whose rating is not in the top half. Currently, the band IIB pay range has a speed bump. In 2007, 6 employees in band IIB did not receive increase to base salary[5] due to speed bumps.[6]

Market-Based Pay for Performance Pushes GAO Employee's Pay Further behind the Rest of Federal Government

Ultimately, employees are concerned about the market-based pay for performance system because it results in lower pay and benefits for GAO employees. During the 2006-2008 period that the market-based PBC has been in place at GAO (including the recently negotiated agreement subject to ratification), GAO employees' across-the-board pay increases are 2.07% less than Executive Branch employees (see table 2 below). Further, this number does not take into account that some of the pay increase was not an actual increase because it was not added into base pay. In addition to the long-term erosion in GAO employees' pay, this also results in erosion of benefits; because these benefits are linked to pay, GAO's smaller pay increases also affect employee benefits.

Table 1: Summary of Pay Comparison between GAO and Executive Branch in the DC Area (2006-2008)

	2006		2007		2008	
Type of Increase	GAO	Executive Branch	GAO	Executive Branch	GAO[7]	Executive Branch
Across-the-Board or COLA Percentage Pay Adjustment (Percentage)	2.60[8]	3.44	2.4[9]	2.64	3.50	4.49

[5] Curtis Copeland's CRS study cited in the preceding footnote discussed at a great length the issue that GAO employees did not receive any salary increases.
[6] Under the negotiated pay agreement still subject to ratification by GAO bargaining unit employees, for FY 2008, all bargaining unit employees would receive a floor guaranteed of across-the-board 4.49% salary increases.
[7] The figure for GAO is based on GAO's management agreement with bargaining unit employees on February 8, 2008 and, as of the time of writing this testimony, is subject to ratification.

[8] The 2006 and 2007 pay adjustments were not received for the full 26 pay periods effectively reducing the overall salary increase for that year.

Performance Based (Average Percentage)	2.15[9]	2.00[9]	2.15[9]	2.00[10]	2.75	2.00[10]
Total	4.75[9]	5.44	4.55[9]	4.64	6.25	6.49

Table 2: Total Across the Board 2006-2008

Total Across the board (Executive Branch)	10.57%
Total Across the board (GAO)	8.5%
Difference	2.07%

Table 3: Total Pay for Performance 2006-2008

Total within grade increase (Executive Branch)	6.0%
Total performance based compensation (GAO)	7.05%

Market-Based Pay for Performance Negatively Affects Recruitment and Retention of Highly Qualified Staff

GAO's PBC system could also have negative effects on recruitment and retention of highly-qualified staff. Specifically, while Executive Branch pay ranges have been increased by the larger COLA and locality increases, GAO has linked increases in pay ranges to its across-the-board increases, which could result in GAO pay ranges not keeping up with Executive branch increases. Further, GAO's restructuring of Band II into a lower pay range (IIA) and a pay range largely based on the prior Band II range (IIB) has made it difficult to recruit staff. Prior to the restructuring, GAO's Band II spanned GS 13 and 14 pay ranges; now, GAO's Band IIA dips well into the GS 12 pay range. People from other agencies do not view a move from a GS 13 position into GAO's Band IIA as a progression in their career. For example, this becomes a problem with recruiting and retaining mathematical statisticians at GAO, a traditional federal job series. GAO typically recruits mathematical statisticians at the IIA level and has an increasingly difficult time recruiting qualified candidates. For the same reasons, it is increasingly difficult to retain qualified mathematical statisticians at GAO, as well as for other positions involving particular technical expertise.

There are also similar concerns about the retention of other analysts and specialists at GAO. As shown in the table 1 above, for the last several years GAO's across the board annual adjustments to salaries have been less than those for the executive branch. Under the PBC system, a large

[9] According to an OPM white paper, 2.0% is historically the cost of payroll to agencies for within-grade type increases. OPM, *Alternative Personnel Systems in Practice and a Guide to the Future* (Washington, D.C.: October 2005)

portion of employee's pay increase is performance-based, and a small portion of the increase is across-the-board. Therefore, GAO employees receiving good performance ratings that are not quite good enough to be in the top half, realize that their pay will not keep up with Executive Branch counterparts, or with the high cost of living in Washington, DC. To illustrate this point, under the recently negotiated 2008 annual pay adjustment, only about 45% of GAO employees will receive pay increases that are comparable or greater than the typical Executive Branch employee in the DC area[10].

Such a pay practice has impacted employees' retention at GAO. For example, some mid-career employees among others have left GAO for executive branch agencies so that they can receive more reliable annual adjustments to their pay. As a consequence, many GAO employees performing well in their jobs have received lower annual pay raises than if they were employed by an executive branch agency. Ultimately, we are concerned that this loss of GAO talent and institutional knowledge will continue if changes aren't made to GAO's compensation system, subsequently affecting the collegial team environment that GAO values and the quality of GAO products it delivers for the U.S. Congress and the American public.

Market-Based Pay for Performance and Ratings Systems Produce Unintended Consequences Related to Equity and Fairness that Can Affect Employee's Morale

In addition to the comparative disadvantage of GAO's PBC compared to the Executive Branch system, the PBC system also has significant inequities within GAO, that call into question the fairness of the system. As we discussed, the market-based PBC system is based on employee's performance ratings. As a result, numerous inequities in the rating system directly impact the fairness of the market-based PBC.

These inequities occur within teams as well as between teams, in part, a result of a ratings calculation process that is based on standardizing ratings within each team. At GAO, employee's ratings are standardized by comparing ratings to those of co-workers on the same team and in the same pay range. The intent is that standardization prevents teams from giving all of their employees a high rating, with a resulting high PBC increase. While this prevents one team from rating its employees high in comparison to other teams, it does not prevent inconsistent ratings from occurring within a team. Teams typically have several dozen staff who supervise and rate employees, with some raters who are hard, and others who may be relatively easy. The results are inequities within teams, referred to as inter-rater reliability, and discussed by Dr. Barry Seltser in May 22 testimony[11]. Dr. Seltser cited a situation in which managers gave an employee significantly different ratings even though they were presented with the same narrative description.

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[10] See Appendix I, table 4

[11] Seltser, Barry J. "*Written Statement for Congressional Testimony before The House Subcommittee on the Federal Workforce, Postal Service, and the District of Columbia, and the Senate Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia*" (Washington, DC: May 22, 2007)

Another inconsistency attributed to the PBC system's use of standardized rating scores is that employees who are on stronger teams with many experienced or talented employees have a disadvantage compared to employees on weaker teams. Because the system standardizes ratings by comparing each employee to other team members in the same pay range, good performing employees who are on teams with many very strong performers receive smaller PBC increases than comparably performers who are on weaker teams.

This also results in inequities because the best performing teams are not differentiated from weaker teams. As a result, employees on a team that consistently generates more recommendations than the "average" team may receive the same standardized rating and PBC increase as employees on the "average" team.

Another inequity of the PBC system it is that it is based on an appraisal system that is inherently subjective, a problem which is exacerbated by the fact that ratings are used for multiple purposes, including promotions and in reassignment to Band IIA. Because executive management has discouraged teams from giving too many high ratings, for each high rating, there are employees who receive corresponding low ratings. As a result, when managers identify a high-performing employee for promotion, in order to ensure that the employee receives very high ratings, while others must receive low ratings so that overall ratings are not inflated. Rather than rating to the standards, which is the written policy for the PBC system, the system requires managers to build the subjective judgment into the assignment of the rating scores to assure the desired outcome.

The PBC system also has a negative effect on teamwork. At GAO, employees rely on small teams of employees to conduct the audit work. Every audit consists of many hundreds of tasks, ranging from sophisticated analysis and writing to quality assurance and paperwork tasks. Successful completion of an audit requires that all team members be willing to work on any task that arises as a priority. However, the PBC system, which requires employees to compete against each other for ratings also has the effect of discouraging teamwork. Employees are less willing to perform the more routine but crucial tasks that are required to complete an audit.

GAO's Pay-for-Performance and Its Associated Ratings System Have Negative Impact on African American Employees

<u>Disparate Treatment of African American Employees in GAO Personnel Practice</u>

Issues with GAO PBC, its associated ratings system, and its personnel practice have crept up in many instances throughout their implementation. A case in point is African American employees who have raised concerns with GAO management about disparate treatment in job assignments, performance appraisal ratings, promotions and performance recognition and have brought discrimination suits against the agency as a result of this disparate treatment.[12]

[12] Otha J. Miller vs. Elmer B. Staats, Civil Action No. 73-996 (entered into a consent decree November 1980); Julian McKensey Fogle v. U.S. General Accounting Office, EEOC No. 091-80-X-0055, and Tyrone Delano Mason

In 2006, following the implementation of the "GAO Human Capital Reform Act of 2003", the Employee Advisory Council (EAC) cautioned the CG about the potential adverse impact a modified PBC system would have on African American employees, particularly if the criteria used included performance ratings appraisals and job leadership experience. Despite the cautions, and longstanding disparate performance appraisal results, the CG used performance appraisals and job leadership as primary criteria to place staff in the newly created lower pay band—the band IIA.

<u>Implementation of 2006 Modification to GAO's PBC
Resulted In Major Adverse Impact on African American Employees</u>

Many African American employees believe that lower ratings assigned to African American analyst staff have adversely impacted them for placement in the lower pay band. These employees believe that African Americans are disproportionally represented in the lower pay band. In addition, African American employees are concerned that lower ratings cripple their chances to compete for pay raises, promotions, and leadership roles on high profile assignments. Lower ratings also affect attrition rates whether it is keeping experienced staff on board to help provide the institutional knowledge necessary to meet agency goals or retaining newly recruited staff to meet the future demands and workload of the agency. Moreover, lower performance ratings contribute to the high attrition rate among African American male analysts especially since many leave GAO before their two year probationary period ends. While GAO is not systematically tracking retention rates, a CG Project that examined retention of GAO analysts and specialists hired during fiscal years 2002-2005, noted that, relative to band, race and year hired, differences exist in the rates of retention for certain groups of GAO employees[13]. For example, as of January 2007

- Among FY 2004 hires, retention rates were 72 percent for Whites, 48 percent for African Americans, and 91 percent for Asian Americans
- Across all four hiring years collectively (FY 2002-2005), at the Band I level, retention rates were 70 percent for Whites, 77 percent for Asian Americans, 61 percent for African Americans, and 62 percent for Hispanics.

<u>Performance Ratings Data Confirmed Rating Disparities</u>

After several requests from Blacks In Government, and one employee enlisting the assistance of a member of Congress to obtain performance ratings data, Mr. Walker released performance ratings statistics and acknowledged that there were disparities in performance ratings between African Americans and other group of employees but that they were not statistically significant. Yet, the CG continued to use the lower performance ratings data to

v. U. S. General Accounting Office, GAO Docket No. 02-700-82-03 (case settled October 1987 under Comptroller General Charles Bowsher).

[13] Data taken from GAO Slide presentation given by Valerie Melvin, GAO SES Candidate, entitled CG Project: Retention of GAO Analysts and Specialists Hired During Fiscal Years 2002-2005, SES/SL Partners' Workshop, July 23, 2007, Washington, D.C.

make critical decisions that impact work assignments and pay decisions that place African Americans at a distinct disadvantage when compared with other ethnic groups.

The CG finally acknowledged during a July 2006 “CG Chat” broadcast that performance ratings statistics for African American staff hired over the most recent 5 year period were lower than those of other groups. For example, for the 2005 Performance Appraisal Cycle, the average appraisal score for African American Band I Analysts staff with 5 years or less experience was 2.36 compared to scores of 2.69 for Asians, 2.55 for whites, and 2.468 for Hispanics. It was not until the data showed that African American staff hired under Mr. Walker’s tenure was being adversely impacted by lower performance ratings that the CG proposed initiatives to address the problem. The initiatives validate the concerns of African American staff that disparities in ratings exist between African American and other groups of employee. A key component of the initiatives includes enlisting the expertise of an outside consultant to study conditions that led to the ratings disparities and provide recommendations for improvement.

Conclusion

In summary, employees are concerned about significant inequities, lack of transparency, and inconsistencies in GAO’s 2006 market-based PBC system. These include

- Smaller pay increases than GAO’s prior pay-for-performance system
- Smaller total pay increases than the executive branch
- System is linked to a flawed and inequitable performance rating system
- System has significant inconsistencies and flaws and is not well understood by employees
- System denies raises to adequately performing employees
- Ratings system negatively impact African American employees

GAO employees are concerned that the PBC systems is lowering morale and putting the agency at risk of losing talent in recruitment and retention, in particular among employees in hard to fill technical positions and among African Americans. While employees overall support a pay-for-performance system and the concept of merit-based pay, they are concerned that the implementation of the current systems is a step in the wrong direction. While the GAO union was not able to address these matters in its 2008 pay negotiations, it is hopeful that future discussions can result in a system that incorporates the concepts of equity and purchasing power for all, while allowing high performers to be rewarded for their particular efforts.

Appendix I: Impact of “Market-Based” Pay for Performance System on Staff

Table 4: Total Percentage Increase to Base Salaries for Bargaining Unit Employees for 2007 & 2008

Percentage Increase to Total Base Salary (Across the Board Adjustments + Performance Based Compensation)	2007 (2.4% ACB, 2.15% PBC, no floor)		2008 (3.5% ACB, 2.75% PBC, 4.49% floor)	
	% of Employees Receiving Increase	Cumulative %	% of Employees Receiving Increase	Cumulative %
0.0%	3.8	3.8	0.0	0.0
>0.0-5.0**%**	61.8	65.6	23.5	23.5
>**5.0-5.5%**	13.6	79.2	8.7	**32.2**
>**5.5-6.5%**	14.3	93.5	22.6	**54.8**
>6.5-7.5%	5.3	98.9	26.8	81.6
>7.5%	1.1	100.0	18.4	100.0

Based on GAO’s recently negotiated agreement of 3.5%/2.75% with a floor guarantee of 4.49% for all employees, almost a third of bargaining unit staff will receive a total increase to their base salary lower than 5.5 percent. In addition, compared to the 6.49% average total adjustment for executive branch employees, **up to about 55%** of GAO bargaining unit staff will likely receive a smaller increase than our executive counterparts.

Table 5: Number of Staff Receiving Either No Increase or A Partial Increase to Base Salary in 2007 Due to Salary Caps or Speed Bumps

2007	Staff Receiving $0 or Partial Increase to Base Salary
Band I (non-PDP)	33
Band II	--
Band IIA	50
Band IIAT*	105
Band IIB	6
Total	**194**

* Band IIAT staff shown are those with salaries above the IIA cap before any 2007 pay adjustments.

In 2007, 194 members of the bargaining unit received only partial or no pay adjustments (table 5).

Appendix II: Acknowledgments

The following GAO bargaining unit members provided significant contributions to this testimony: Jennie Apter, Jackie Harpp, Ron La Due Lake, Daniel Meyer, Henry Sutanto, Eddie Uyekawa, and Daniel Wexler