

**Media Briefing on
National Intelligence Civilian Compensation Program (NICCP)**

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A copy of the PowerPoint presentation shown at this briefing is available at:

www.dni.gov/NICCP/NICCP.pps

DR. RONALD SANDERS: Good morning, everybody. My name is Ron Sanders. I'm the chief human capital officer of the intelligence community. We are here to talk today about something called the National Intelligence Civilian Compensation Program. The translation: This is a community-wide effort to modernize the compensation systems that cover our civilian employees across the departments and agencies that comprise the IC.

Here is the order of proceedings this morning. Director of National Intelligence Mike McConnell is here. He has only got a few minutes, so he has agreed to say a few words, and then scoot. We won't have time for any questions. Then I'll take over. I'll give a briefing, the inevitable PowerPoint. I'll try to be – make it a brief briefing, and then we'll open it up for questions. We've got seated around the table, as you may see, with the name tents, the brain trust of the intelligence community's human capital profession. And I'll introduce them after Director McConnell is all through. So over to you, boss.

DIRECTOR MIKE McCONNELL: Thank you very much. I appreciate the opportunity to visit with you. There is press here, I suppose. Well, welcome; delighted to have you here.

I just wanted to make a few comments about this process because as far as I can tell, this is the first time this community has addressed it holistically since the rules were set in place after World War II in 1948. So we're at a time where we've gained a lot of experience and the world has changed pretty dramatically. So we wanted to do something that would put emphasis on rewarding superior performance. Now, some of you may know my background. I was inside this community for about 30 years – not quite 30 – but then went to the private sector for 10 years, and then I came back a little over a year ago.

In the private sector, I had the good fortune of joining a highly performing successful organization. But it was going through a process early when I got there about making itself even higher – performing at a higher level. And the emphasis was on collaboration and coordination and sharing of information, and so on. So what I experienced was it actually became a competitive advantage of the company I was in because we would share information and coordinate across boundaries, and so on. We also had a process that recognized superior performance. It was a merit-based system. Meritocracy was a word that was used pretty regularly in the circles I traveled in. And it rewarded superior performance.

So it – looking at it, thinking about it, being on the inside for so many years and going to the outside, where [they] could have a little more control on the levers, you’ve got very different results. So when I came back in, I was happy to find that Dr. Sanders and you all were looking at this, and our model was our newest intelligence organization now referred to as NGA or going by several names, but National Geospatial-Intelligence Agency. They have been doing this now for almost a decade?

LAURA SNOW, NGA’s HUMAN DEVELOPMENT DIRECTOR: That is correct, sir.

DIRECTOR McCONNELL: And the results have been spectacular. So we looked at the model. We tested it. We looked at how it would fit across all of the community, and we worked through all of that in a coordinated way, probably taking a little more time than we should have, we would like to, but we’re at a point now where we signed off on this and we’re going to put this in action. Now, there will be concerns; there always are concerns, but basically think of it as a merit-based system that rewards high performers, and it has the flavor of the private sector in that you get superior performance.

One of the ways that it’s often described is you get the behavior that you reward. And so that’s the way we’re thinking about this. Our emphasis is on collaboration, sharing. Our emphasis is on something like a 360-degree appraisal. If you haven’t thought about that, a 360-degree appraisal, what does that mean? It means seniors – seniors in your organization – you normally expect them to do appraisals – but it is also input from peers, which often turns out to be the most important part – certainly those that are working for you, juniors, but also includes clients, so people you’re providing a service to, policymakers, operational decisionmakers, and so on. So we’ve thought about this holistically, so that we have a performance-based system that differentiates in recognizing superior performance, and we have a developmental mindset about how we do our training and appraisals and our process so that we address all of the levers to raise the performance of this community.

So that is our thinking. Dr. Sanders has the task now of socializing that across all of our community. There will be questions and concerns and fears. Anytime you have a change, there is always worry – ‘what does it mean to me personally?’ But we can fall back on the fact we’ve done it almost a decade, and I think if you do a survey or interview with NGA employees, you’ll get a very high response rate of this is the right way to run an organization. And then I personally have experience with it in the private sector.

So I just want to take a moment to introduce it and to tell you we’re looking forward to getting into the details and turn it back over to Dr. Sanders to –

DR. SANDERS: Thank you, sir.

DIRECTOR McCONNELL: Answer questions and to describe it. So thank you very much. I appreciate the opportunity to visit.

QUESTION: Could you pull the microphone closer to you? Sorry. I misjudged my –

DR. SANDERS: How is that?

QUESTION: Thank you.

DR. SANDERS: I'd like to keep this more conversational. Would it be useful if we took three minutes and went around the table so everyone knows who is here, or have you already done that? You've done that, okay. Then you know who I am so I guess we can get started. Let me tell you, do you – have you seen what's in your packet? Do we need to do that? Okay. I'll tell you what's in it. You got a copy of the slides that I'm going to walk you through here in a minute. You've got a copy of a front-and-back sort of what we call the slick sheet. This is part of our communication campaign with the work force with a quote from Director McConnell and then the high-level overview of the system. You've also got a memorandum that the director signed to all IC employees. It's a little bit longer than he's used to but we felt, with this one, given the context, given the nature of the NICCP, we felt detail was important, so you should have that – that's on the right side. And then we've given you, in case you get a case of insomnia, you have a copy of the five intelligence community directives that, taken together, comprise the National Intelligence Civilian Compensation Program. So read them at your peril or leisure.

So if you would pull out the slides, I'll walk you through this real quick, and then if [we] could, we'll save questions for the end, so that way we'll maximize the time available. On slide two. Let me begin this conversation with sort of the case for action, first, looking at the status quo. I'm not going to spend a lot of time on this because you've heard this before. The General Schedule was invented in the late '40s. The nature of work and the nature of the work force have changed dramatically since then. The emphasis and the General Schedule is far more on tenure than it is performance. Performance is an exception to the rule. Former comptroller Gen. David Walker has said [that] about 85 percent or more of an individual's compensation is virtually automatic.

Here is our worry: If you have two employees working side by side – one, a stellar performer, the other not, if the compensation and performance management systems treat them both more or less the same, what is more likely to happen? Is that mediocre performer going to raise his or her performance to a high level or is that high performer going to begin to wonder whether it's all worth it? You know, that is a question each individual has to ask for him or herself. I worry about the latter. We have some very, very high performers in the intelligence community. As you may know, we have a work force that is in recovery. Ever since 9/11, we have been hiring to sort of recover the losses that we suffered during the '90s, the downsizing both by design and default.

Our work force is now approaching 50 percent with five years or less of service. So the nature of that work force has changed dramatically, and we believe the mores they bring with them are far more amenable to this kind of an approach than one that basically says be patient, keep your nose clean, don't make any waves, and eventually your time and grade will get you to the top.

That's the look back. Let me take you to the next slide. This is the case for action as we have laid it out for our work force. And it has three pieces to it. You've heard Director McConnell

talk about the first one. We want to reward excellence. Those highest performers should be recognized and rewarded. Those who fall below should also be held accountable. We'll share with you in a minute some of our employee survey results that emphasize that, our employees telling us exactly the same thing. So we want to reinforce and reward excellence.

Secondly, we want to ensure that there is a level playing field. We'll talk a lot about this because in my view, the NICCP is unprecedented even though it's modeled after a system in a single agency, and even though the government has some experience in DOD and DHS and IRS and other places with systems like this, the fact is those are all within the confines of a single organization, a single agency, a bureau, a department. This is more like a system of systems. I'm going to ask Ellen McCarthy to talk in a little bit about DOD as an example because DOD has something called a Defense Civilian Intelligence Personnel System [DCIPS], literally established in the mid-'90s. They are going to take these directives, which cover all of the IC, and that is how they'll implement them in DOD.

The level playing field comes because CIA has its own pay flexibilities. DOD has its own. FBI has its own. The [ODNI] has its own. My worse nightmare, when we began this journey two years ago was, as we're trying to integrate the intelligence community, the prospect of four or five of our agencies, our most important components, moving off in different directions when it came to performance management in compensation.

So we've spent two years of intense interagency collaboration. And I would underscore the word intense. We'll talk a little bit more about that, but the idea was from the beginning when Gen. Mike Hayden, as principal deputy DNI way back in 2006, first kicked this off; the intention was to try to create a framework that each of the separate departments and agencies in the IC could implement but in a common way to keep that playing field level.

The last, and in my view, the most important. This is ultimately intended to be transformational. Director McConnell talked about this. You'll see in a moment that we have established performance evaluation criteria that go directly to some of those key behaviors and values that he described, like collaboration and information sharing. Well, you know what, our employees basically tell you literally and figuratively, put your money where your mouth is. Do you want us to collaborate? Put it in your performance management systems, reward those of us that do. That is the leverage you get through personnel policies in transforming an institution like the intelligence community.

So this has been deliberately geared to help that transformation process, in my view. And I know Director McConnell feels this way, as well as the community senior leadership. This is more than just a set of personnel policies. This is a means to a much larger end. And here again, you all may want to speak to that, and Ellen in particular. Ellen works for Gen. Jim Clapper, undersecretary of Defense for intelligence. And he was there at the beginning with NGA, when they began implementing this system. And so he has been a strong supporter of doing this on a community-wide basis since he's been back to DOD. Gen. Hayden at CIA actually started this as principal deputy DNI and oversaw it in its early stages and too has been a key player now as we begin to move this forward.

On slide four. This is what the survey says. Steve, you and I have had this conversation – Steve Barr – on the results of our most recent employee climate survey. Only 28 percent of our employees think that their pay is linked to their performance. Now, the other 72 percent either don't think it's linked or don't know. I don't know which is worse. That 28 percent is just way too low. You can see the other results, particularly the one bolded in red. Our employees don't believe we're holding poor performers accountable. So they want to be rewarded for the high performance. They want us to hold poor performers accountable. This tells us they don't believe the current system, which is essentially the General Schedule does that. That is the principal objective of the National Intelligence Civilian Compensation Program.

Slide five. This describes the organizational relationships. The five directives that we have given you for your nighttime reading together establish a policy framework across the entire intelligence community, but you can see that each of the departments and agencies in the IC will implement this using their own separate authorities. Director McConnell and I both have been quoted as saying that under the intelligence or format, the DNI's personnel authorities are ambiguous at best.

And early on, the community confronted the question, can the DNI impose these policies on the cabinet departments? And, frankly, the senior leadership said, that is not the relevant question. The relevant question is can we come together, establish a set of policies, and whether – and not worry about who is telling whom what to do. Let's all agree on those policies and move forward as a community, and that is what these directives represent. I would like to characterize them as treaties, and there is language in there that basically says each of the cabinet secretaries and [agencies] had to agree that they'll exercise their separate authorities to implement these common policies, and you can see the organizational relationships here.

NICCP, by the way, does apply to GS15s and below, as a separate matter. And if you want, we can even talk about it this morning. There is a separate system covering our senior executives. We've just issued an IC directive addressing that, but for the most part, IC senior executives, although they are in five separate senior services, including the regular SES, all pretty much follow the same pay-for-performance rules as the Title 5 SES system. So that's not our principal objective today; it's separate. These are for GS-15s and below and their equivalent.

Slide six. This is a visual of what the directives actually cover. The foundation is a set of guiding principles. I'll cover those for you: a common occupational structure so that we can actually compare the work for an analyst in CIA with an analyst in DIA. And then the process itself: setting basic rates of pay, managing the performance of employees, setting expectations, giving feedback, eventually rating them, and then tying those performance ratings to their pay. So there, in a nutshell, is what those couple hundred pages of IC directives actually address. And as I said, these will all be translated. CIA will issue a set of administrative rules for its employees. DOD will issue a set of DCIPS, Defense Civil Intelligence Personnel System – manuals covering its employees; the same with FBI.

And then we have NRO, Mary Kay Byers, who is covered by –

MS. MARY KAY BYERS, NRO's HUMAN CAPITAL EXPERT: Everybody.

DR. SANDERS: Two of these three. And so she represents a unique – not her personally – I was going to say you represent a unique challenge, but it's your organization that does.

So next slide, on seven. These are the guiding principles. If you care to look at them in more detail, these are contained in IC directive 650 in your packet. The ten are pretty straightforward. They are drawn directly from OPM studies of its pay-for-performance demonstration projects. GAO studies of DHS and NSPS and IRS, all of those giving us lessons learned. And equally important, it's our own after-action review of NGA and other attempts in the community to implement pay-for-performance. As Director McConnell said, we have an experiment – and I believe NGA is one of the least-known but most successful pay-for-performance initiatives in the federal government – nine years now. Now, that's not to say they didn't encounter some challenges early on, but they learned from them; they adapted, and we've been able to benefit, take advantage of those lessons learned.

So, again, there are the 10 – principle number, senior leadership commitment. I think you heard Director McConnell. The briefing you've got here, a variation of it, has been given not only to the agency heads but to their cabinet secretaries. All throughout the process we've had that senior leadership buy-in. We've also spent some time talking with our employees, getting their input. They have given us a list of concerns. They literally resolve themselves on sort of the Top 10, like David Letterman. I won't bother to share those with you, but what I will try to do as we go through the briefing is identify areas where they have said we're worried about this and where we have gone out of our way to ensure that the system addresses that concern. So I'll point those out as we go through.

Again, you can ask me questions specifically as we proceed. On the next slide, this is our occupational structure. This is, in effect, a replacement for the General Schedule. And you'll see that it bears a resemblance to the pay bands at FAA and IRS and the DOD demos, and NSPS and DHS have all come up with. This is not rocket science. This is basically taking General Schedule grades and collapsing them. You may ask why. Those General Schedule grades were defined in law in 1948. The world of work has changed a bit since then. And where you could compartmentalize work back in the middle of the last century into nice divisible bits, the way we work today, particularly in the intelligence community, you need employees, and a personnel system that is far more agile and flexible. So that is what this represents. The vast majority of our work force is in that middle category, the professional ranks. So you can see fairly straightforward professional entry development, full performance, senior expert as an example – put the word analyst after that as one of our highest-population occupations.

You'll note, if you compare the professional band with the supervisory ones, this provides for the so-called dual track so that we can compensate technical excellence to the same level that we compensate managerial excellence. That is another, in my view, great flaw of the General Schedule in that you force your very, very best technical people often to take managerial positions in order to get promoted, when that is the last thing you want; you want them to stay in that job, applying and providing that technical expertise.

So you can see that at the upper bands, you have essentially the same salary ranges for our senior technical people as you do for our mid-level and senior managers. That is even more graphically portrayed on the next page, which shows how those bands actually translate into pay. This is base pay without the application of any locality rates – [I'll] talk more in a minute about that. And you can see that in order to ensure that we have sufficient performance pay potential for all of our employees, we've essentially said in any given band, we'll start – you know, let's take band three – we'll start at GS-11 step one and we'll go to GS-13 step 12. Now, you all are thinking GS only has 10 steps. We've added the equivalent, the monetary equivalent, of two steps in order to provide more performance pay potential because there are a fair number of fairly senior employees who are at the band maximum as it is constructed here. We want some incentive for them to perform as well.

How do these rates come about? The director has designated an IC human capital board. It's actually comprised of the agency deputy directors and is chaired by his deputy, Dr. Don Kerr. And, among other things, that deputy's committee will annually look at adjusting of our salary rates according to these bands.

Now, this body is purely advisory. It makes recommendations. I'll go back to the point I made earlier. This policy framework is actually implemented by the departments and agencies. So the secretary of Defense has pay-setting authority for his IC employees. This body will make a recommendation to him, to the CIA director, to the director of FBI, et cetera, saying, we believe, as a consensus, we should have a common set of salary ranges and this is how they should be adjusted. We're recommending that you adopt that. Given the level and stature of that board, we believe those recommendations will be adopted. But that's one of the accommodations we've had to make given the statutory structure of the intelligence community.

Okay, next slide – those are the basic pay rates. Actually, let me keep you on that slide for one moment and I'll segue. People move between these bands based on promotion. It will be competitive. They'll either compete against standards – so if you're a trainee in the entry development band, you may graduate for the full performance band by comparing your performance against a set of standards or you may be competing against other employees in a classic merit-promotion action. But you move up those steps through promotion. You move across these bands based on performance.

So let me describe that mechanism to you right now on the next page. Fundamentally, the key to this system is an effective, credible, performance-management system. That's set forth in ICD-651, again, in your packet. That directive was issued last November so even though these have a nice, neat, sequential order to them, they were issued out of order because we all believed – at our level as well as the senior leadership level – that the most important foundation for this program, as well as for things like joint duty, was to create a common set of performance-appraisal requirements across the intelligence community.

So Director McConnell issued that last November. The departments and agencies are busy implementing it. CIA, for example, is out front. They are implementing it this year. It goes into effect no later than 1 October of '08 for the fiscal '09 appraisal cycle. And let me go back to something Director McConnell said: you get the behavior you reward. These are the behaviors

you can see in blue that we intend to reward, things like collaboration, critical thinking. These things, these behaviors come right out of things like the WMD commission and the 9/11 Commission, where they said, we need analysts who are far more adept at critical thinking, who are willing to question every assumption. Well, we've actually built that now into our appraisal systems.

So you can see, those six in blue at the top, those are six common performance elements. Every IC employee will be evaluated against those elements. Departments and agencies can add more than – if there are behaviors that they want to emphasize within their own agency, but everyone will have a common set as a basis for the evaluation. The other thing that every IC employee will be evaluated on is results.

So this is a two-dimensional evaluation system: one, what you do, the results you achieve. Everybody will have a performance contract. By the way, even agency heads have performance contracts with the DNI. Everybody has a performance contract. These are my objectives – look at the end of the year and see how somebody has done and how they do it. So it's what and how. The how part are these six behaviors, sets of behaviors.

There's also a common set of rating levels and definitions to make sure that when a CIA employee is rated as outstanding that means the same as an NSA employee rated outstanding. Now, human judgment enters into this and no appraisal system is perfect. We all know that very well. But, again, as part of this treaty, we've agreed on a common set of definitions that, in effect, set the bars to get an outstanding rating, in order to get a successful rating. You can see that the definition of outstanding rating actually uses the words "extraordinary accomplishment."

So if we're true to those words, this will work. And, as in the case of Ronald Reagan, "trust, but verify," we'll show you how the oversight mechanisms we intend to establish to ensure that this is administered the way we intended. By the way, footnote, quotas and forced ratings distributions are strictly forbidden so we're not going to force a bell curve. We're going to rely on these definitions and well-trained managers and various oversight mechanisms to ensure that we're true to the words here.

This is also critical, by the way, to joint duty, as I mentioned. It's very hard for people to move from one agency to another on a joint-duty assignment if the appraisal system in one agency is different from the appraisal system in another: mass confusion. So, again, this was one of our top priorities, to get this in place, to allow [to] not only serve as a foundation for the NICCP but also to enable our civilian joint-duty program that we're busy implementing.

Slide 11 is what everyone waits for. This is how you connect the performance rating to pay. Again, this is built on nine years of experience at NGA. And let me just point out, in that top yellow box, probably the number-one employee concern was whether I'll keep pace with the cost of living. What they mean when they say "cost of living" is the annual General Schedule increase and the locality pay adjustment. We all know that's not really cost of living. It's more geared to cost of labor.

Nevertheless, that's how employees view it. And they worry, especially these days, will they keep pace? Some pay-for-performance systems put that GS and locality increase at risk. We chose not to, at least for employees who are rated as "successful" or better. If you get a "successful" rating or higher, you're going to get the GS increase, the locality adjustment, and you're also eligible for an additional base performance pay adjustment increase, and I'll talk to you about how that works.

Here's the difference from the General Schedule: If you fall below "successful," if you're rated "unacceptable," for example, you get no pay increase – no GS, no locality, no performance pay, no performance bonus. Our employees said hold poor performance accountable; we believe that this will do so. And again, the higher the rating you get, "successful" and above, the more performance pay.

In almost every pay-for-performance system, organizations are divided up into pay pools or simply clusters of employees. It's an administrative unit. One of the concerns that employees had, both generally and at the pay-pool level, is 'will there be enough money?' I know that, for example, many of the federal unions are concerned, and while we don't have any unions in the intelligence community, you know, to the extent those unions are voicing employee concerns, we paid attention to them. You know, 'is this, oh, just a backhanded way of reducing our payroll?' So we said in these policy directives, and the DNI actually controls the National Intelligence Program budget to back this up, we've said we will spend at least as much money in payroll for the NICCP as we would have spent under the General Schedule. So we've created that floor. So I hope that's addressed – that effectively addresses that particular employee concern.

How does that performance rating get translated into a payout? We've developed a mathematical formula – actually, we've adopted a mathematical formula that NGA pioneered, that takes into account the individual's rating, the performance rating distribution in that pay pool, that administrative unit, the funding – the performance pay funding for that pay pool. Typically, it's simply a pro-rated share, so if we say we're going to put across the intelligence community 3.5 percent of our payroll into performance pay, that most often just cascades down and each pay pool will have 3.5 percent. So it takes [individuals' ratings], ratings distribution, pay-pool funding, and also the employee's position in the salary range. I'll explain that in a moment. And the mathematical formula produces a preliminary performance payout.

One of our employee concerns was, 'are supervisors up to this, do they know how to set pay?' Well, a way of addressing that is to say we're going to at least start with a mathematical calculation so that it is reasonably objective, it's based on those variables. If anyone cares to, I'll have one of our experts explain the calculation, but it's pretty straightforward. There's no calculus involved. It's, you know, it's multiplication and division. We'll actually let employees play with this so they can see how the performance pay is calculated in a – you know, with a, you know, typical organization, so a fairly straightforward calculation that results in a preliminary payout.

We do allow pay-pool managers – these are typically third-level managers – to adjust that preliminary payout. [There are] some requirements before they adjust it. They need higher-level approval to adjust it. They need to fully document the reason for that adjustment, and they have

to share it all with the employee. The NGA experience is – Laura, you may want to talk to us a little bit about that – how often the adjustments occur and their nature.

MS. SNOW: Each of our key components, those are the primary divisions of NGA, is allowed to put out to their work force the rule set that they'll be using for salary and bonus each year, within certain parameters that we have set for our total pay compensation system, which is what we call our pay-for-performance system. Those rules are provided to all the employees. Everybody knows going in – how are salaries going to be calculated, what special rules do we have? For example, some key components may decide – if you've been with us for only a fraction of the year, we are going to diminish somewhat your salary increase if you've only been aboard six months, as opposed to being a whole year in our unit.

We put out the rule set for bonuses. Everybody knows ahead of time how we're going to be dividing up the bonus money. And of course, everyone knows that we have this mathematical formula, this algorithm, that drives the spreadsheet, which actually ends up being the way we determine salary increases for the vast majority of our employees. Any deviations from that would have to be documented, kept as part of the panel records.

DR. SANDERS: And I think, if I recall correctly, the NGA experience is that adjustments are only made in like 10 or 15 percent of the cases –

MS. SNOW: That's about right.

DR. SANDERS: So 85 to 90 percent of the payouts are based on the mathematical formula, and the vast majority of those adjustments are up. Some are down, but the majority are up, but in every case, approval documentation, explanation in sharing with the employees so it's transparent.

MS. SNOW: And written and oral feedback to the employee at the end of the process.

QUESTION: I just want to be clear. When you say payout, you mean the actual increase in salary? Or are we talking about –

DR. SANDERS: Yes.

QUESTION: Okay.

DR. SANDERS: Yes. If you can see the yellow bar below, we've actually not touched the bonus process. So what we're talking about here are base-pay increases, the initial base-pay increase determined by the mathematical formula, subject to adjustment by the pay-pool panel or manager, with approval documentation and communication.

So to address our employees' concern, they worry about whether their managers are up to it. The managers have the option of following the formula. And if there's going to be an adjustment to the formula, it's literally done at a much higher management level.

By the way, pay-pool panels and pay-pool managers will receive extensive training, so they'll understand how the calculation works and how to ensure that any adjustment is for merit reasons.

Back to this issue of bonuses. One of the employee concerns – and some pay-for-performance systems have done this – one of the employees' concerns was you're going to take our annual base-pay increase and you're going to put it in bonus, one time, doesn't – you know, it doesn't stay with us.

Here, again, we wanted to ensure our employees. The bonus process is separate; the lump-sum, one-time reward for high performance is separate. What we're talking about here are base-pay increases. They're funded by re-allocating the money that used to go to tenure-based increases and some competitive promotions. So the money that went for – within-grade increases, quality step increases, for all of those GS promotions that went from, you know, five, seven, nine, 11, 12, 13, 14 – again, as you would note, there's far fewer pay bands, and the promotions between bands are going to be fewer. What we've done instead is broaden the salary ranges so that somebody can move through those salary ranges based on their performance rating and, frankly, have much higher pay potential in that salary range. They don't need to be promoted in order to progress. And then, at the very bottom you can see employees rated “unacceptable,” they won't share in the pay pool.

The next slide – at the risk of getting into a little trouble here because it's kind of complex – this is an attempt to show you and show our employees how their position in the salary range bears on the performance payout. And here's the simple explanation, and I can make it more complex if you'd like. The simple explanation is that this is intended to mirror the salary progression under the General Schedule. The salary progression under the General Schedule is designed to get people to market-rate quickly, and then let – in the case of the General Schedule, let tenure take over. That's why newer employees only wait one year between steps, middle-range employees wait two years, more senior employees wait three. So it flattens out because the principle is, way back in the, you know, middle of the last century – and it's still valid today – get them to market quickly as they learn, get them to market and then let, in the case of the General Schedule, tenure take over.

In our case, same principle except it's based on performance. So the idea is you would move more rapidly to the market rate in any given pay band, and then once you're at that market rate, performance takes over and you move as fast or as slow as your performance rating will take you.

So you can see we've mathematically modeled a couple of progression patterns here, just for illustrative purposes. This represents GS-11 and 12, or GS-11 to 13, which represents band three under our system. You can see that we've added a promotion in there. The bottom line represents an employee under the General Schedule who's not – who's never been promoted. They come in as a GS-11 and they stay a GS-11. The line above it shows a GS employee who is promoted at some point in their career. And in both cases, you can see the shape of the line.

We've adopted a similar shape, that calculation gives us that shape, but here's the key difference: For employees who are successful, they're going to essentially stay even with what they would

have made under the General Schedule. We want employees who are rated “successful” to feel that they remain valued. We don’t want to put – we don’t want them to fear this system. So if you’re rated “successful,” you’re not going to lose any ground. You’re going to stay about where you would have stayed, and progress about how you would have progressed under the General Schedule.

I’ll go back to that key point: If you’re successful, you’re going to get an amount equivalent to the GS and the locality increase. If you perform at a higher level, if you’re “excellent” or if you’re “outstanding,” while the shape of the line stays the same, the slope is much more dramatic.

Now, obviously, there are unlimited variations to this. Somebody could get an “outstanding” one year and an “excellent” the next, so that would vary. But for an employee who gets consistent “outstanding” ratings, they’re going to move up very, very quickly. For an employee who gets “successful” ratings, they’re going to keep pace. I think that’s the lesson – that’s the point of this complex slide.

Slide 13 – I promised to be brief and I haven’t been – there’s extensive oversight structure. Everybody worries about supervisory judgment. Some supervisors are hard graders, some are easy graders. Here’s the oversight mechanism. We’ve actually bifurcated the process for performance ratings: supervisor rates, higher-level manager reviews, and then there’s an agency-level review to ensure that like ratings are given for like contributions. They’re the ones that would actually worry about the norming.

Once that process is concluded and performance ratings are locked down, then the performance – then the pay pools take over. The pay pools look at those ratings, they apply that mathematical formula, make adjustments as appropriate, document them, get approval for them, share them with the employee, and then before – actually, before they’re shared with the employee, they’re reviewed by an agency-level body who looks across all of those pay pools, again, to ensure consistency.

Many of our employees are concerned, our women and minorities are concerned, about adverse impact. These oversight mechanisms are, in part, specifically designed to guard against that, to look at the numbers, to make sure that nothing anomalous is going on here. And again, this structure is modeled right after NGA. They perform a similar – conduct a similar oversight – provide a similar oversight mechanism as they implement their system.

Last but not least, I promise, then we’ll have questions. Slide 14 shows the implementation schedule. Three blocks, and you can see how this is going to roll out starting in fiscal ’08. John Allison here is from DIA and he can talk about where they are. They’re getting very close. Then, another big portion of the community will follow them the following year and then, in second block, CIA, NRO because of its inherent complexity, and ODNI.

We’ve put the domestic agencies down at the bottom, let me just footnote that. These are the agencies that don’t yet have the authority to do this. We worry, we don’t want to leave any agency behind because it would put them at a competitive disadvantage. So while 95 percent of

the community has sufficient authority in the separate departments and agencies to implement this, smaller parts of the community in State, in Energy, in Treasury, do not. Last year, and again this year, the administration has proposed legislation that would allow the DNI, with the cabinet secretary's concurrence, and, in the case of a Title V agency, the OPM director's concurrence, to transfer some of this flexibility that DOD or CIA has to one of these smaller agencies so they can implement the system.

The Senate, last year, passed it in their authorization bill. It is in their fiscal '09 authorization mark this year. We hope to persuade the House that we need this in order to, again, maintain that level playing field.

So that's a sort of brief overview of the NICCP, and we'd be happy to respond to questions.

QUESTION: Steve Barr, from the [Washington] Post. About the oversight structure: The Government Accountability Office, which has had some experience with performance pay, and it's full of a lot of smart people, has recently discovered that the ratings systems put African Americans [at a] disadvantage. And they're having to go back in and re-examine the process. There seems to be some inherent discriminatory effect going on in some of the agencies, from what I'm told. And how quickly can you catch it with this oversight structure? Or is there going to be a two- or three-year lag before you know that you're coming up with an impact against minorities?

DR. SANDERS: Well, let me again bifurcate this. While we've implemented a new performance management – set of performance management requirements across the IC, our agencies have been evaluating employee performance for years. And in many cases, the systems look very much alike. They pay very close attention to things like that, you know, literally looking at the numbers each year. We've had no evidence of that, but we're going to heighten the scrutiny when this becomes attached or linked to pay. So again, the NGA experience has been that, you know, the ratings are finalized, the payout decisions are made, but before those are finalized, before they're communicated, there's one last agency-level review to look for things just like that.

QUESTION: And does the IC demographics reflect those, gender and race and ethnicity? Does that reflect the federal work force as a whole? Are you comparable or are you weighted towards one group?

DR. SANDERS: We are less diverse than we need to be. I don't have the statistics in front of me. In some cases, we either are comparable to the civilian labor force and/or the federal work force; in other cases, we're not. And we know that's an area we need to continue to work on. I think there's a report, an annual report; there's an unclassified version of our progress and EO and diversity that we'd be happy to share with you. We're proud of the fact that we have made progress. Over the last three or four years, the progress has been modest, although in this most recent report, there was actually a fairly significant jump in our recruiting and promotion and rates for women and minorities at most of our grades in occupation.

So we're beginning to make a dent in that, but you know, I think we all know the intelligence community historically hasn't been as diverse as it should be, and that's one of Director McConnell's top priorities. In fact, tomorrow he's hosting a summit meeting of heritage community organizations, Arab-American, Pakistani-American, Korean-American, Chinese-American, et cetera. This will be the second time we've done this, and it's a model pioneered by Director Mueller at FBI. We want to reach out to those heritage communities and we want them to help us recruit their members. So that's an interesting – that's a diversity strategy that may be unique to the intelligence community.

Director McConnell likes to say that we not only want a work force that looks like America, but one that can understand, deal with, all of the peoples and cultures of the world. So this is diversity as a mission imperative. So again, it's [a] high priority.

QUESTION: Jason Miller, Federal News Radio. Can you talk a little bit about the training for managers, and how to kind of allay some fears because there's a lot of – whether it's right or wrong – trepidation, especially since what you've seen at DOD and the DHS, with the performance-pay systems that kind of got, you know, hammered by the unions, hammered by Congress. Whether it's true or not, it doesn't matter; the perception's there. So maybe address, maybe, the training issue for managers to try to allay some fears?

DR. SANDERS: We'd be happy to. I'm going to ask Ellen McCarthy to address this because DOD has really stepped out smartly in developing training programs, hours and hours. And then, John Allison, maybe you can talk a little bit about it because DIA has already begun implementing them.

Talk into the mike.

(Cross talk.)

MS. ELLEN McCARTHY, DIRECTOR OF PERSONNEL AND READINESS, OFFICE OF THE UNDER SECRETARY OF DEFENSE FOR INTELLIGENCE, DoD: Jason, we've actually – being part of the Department of Defense, we've had the opportunity to really look closely at the NSPS [National Security Personnel System] experience and the Department of Defense, and sort of take some lessons learned from there and exploit those to ensure that, you know – we exploit the negative and turn it into a positive.

Training has been one of the biggest areas of focus in the development of our implementation plan for DCIPS under the NITP (ph). We've already started training; in fact, we had two one-week sessions up in Southbridge, Massachusetts, where all the Defense components brought in their trainers. It was a train-the-trainers session, two one-week sessions, where we focused exclusively on the performance management piece first. We have an implementation schedule that will take us into the other components of DCIPS to include the pay-pool process, training of managers, training of work force. We have a pretty detailed schedule.

We're working this with the DNI and the rest of the community. We'll have online training, modular training. We have pamphlets, books, materials that we're passing out to the components for them to use and incorporate into their implementation schedules. So –

QUESTION: Is there an area that you need to focus on individually – trainers, but –

MS. McCARTHY: Performance management is the first component. It's the most critical component. You know, that's where you can really focus on ensuring that diversity is considered, that the importance of writing a good performance plan that is detailed and is worked with the employees. This is a partnership of managers and with the employees. They each have to be engaged in setting goals and ensuring that those goals are consistent with the mission imperative that their agencies or departments have laid out for the whole organization. And so it's – it is – and from our perspective, the most critical part of the training process. So that's where our focus has been.

MR. THOMAS COGHLAN, PROGRAM MANAGER, PAY MODERNIZATION PROGRAM OFFICE, ODNI: If I could just add one thing, I actually attended the training, sat through the full week of training, and we – we participated in mock sessions for each one of the events throughout the year. So we participated in preparing performance objectives for each employee. We then went through the process of what it's like to actually share with the employee their results and talk about – counseling and coaching on how they can improve. So it was very thorough. In fact, we were so impressed with DOD's training, we've decided to adopt it for the IC and make it available to all of the other agencies to use, just simply making it more general from the standpoint of IC application.

DR. SANDERS: John, I'm going to pass this down to you. Let me just add one point. We've specifically provided not only training for supervisors, managers, employees, HR specialists on the system. And, as you've heard, a lot of that emphasis is on the softer skills because, frankly, this is not a particularly complicated system so it's the focus on the softer skills.

There's also a specific set of training materials. I think it's as much as two days, that every manager participating in the pay-pool process will undergo. And by directive we've actually said that that training will incorporate EEO and diversity modules, again, to ensure that there isn't any sort of implicit or unintended bias. We'll teach our managers up front what to look for in order to guard against that.

Actually, you wanted to – we should have just had you trade seats. (Laughter.)

MR. JOHN ALLISON, DEFENSE INTELLIGENCE AGENCY: John Allison, Defense Intelligence Agency – I'd like to start by going back to the question on minorities because we do have the data and I have it with me. DIA is the most diverse of the intelligence community agencies, with 29 percent of its onboard civilian population being minority. In the year 2007, 33.1 percent of the promotions went to minorities. So we don't have any data supporting what the GAO found in other agencies. And for the intelligence community – it's overall in that unclassified report – roughly 20 percent minority with 22 percent of the promotions going to minorities.

In terms of bonuses, DIA is not quite where NGA is, but we have been on a bonus system where roughly 28 to 35 percent of our employees get bonuses every year. So we've moved away from the total reliance on longevity and now will be transitioning to DCIPS. But our data over the four years that we've been doing corporate bonus boards shows no statistical difference in the allocation of bonuses based on gender or race, national origin. So we have the data and we track it.

In terms of the training, since we are out of the gate here in May, shifting to the new performance system, performance-management system, what we've done is in advance of this new appraisal cycle, we put both online and in classroom specific training geared towards teaching supervisors how to write performance expectations in a clear and measurable way using what we call SMART objectives: specific, measurable, achievable, relevant, and time-bound.

That training has been undergone – we've been doing that training both online and in classroom. It's mandatory for all supervisors and we've been doing it for a year. We've now – the question, the last question that was asked had to do with the uncertainty of the work force, the news stories, either perceptions or misinformation. We've had over 60 town halls to address those concerns. We've got another 50 scheduled. We have a memorandum from our deputy director, which came out yesterday, which says that all supervisors – supervisors of supervisors – will rewrite their performance expectations to ensure that they are held accountable for introducing ICD-650 and meeting all of the expectations therein.

There's still a lot of work to be done because the hardest part is giving people an awareness of what happens in a pay-pool deliberation. Anyone who has participated in one of DIA's bonus-pool deliberations believes the system is fair, but it's a very small percentage of the work force. So what we've done is we have been working with USDI to develop some constructs around the issue of mock pay pools and we'll do that for as many supervisors as we can. DIA has a new course called "Frontline," which is mandatory for all supervisors within three months after their being selected as a supervisor, and that course will include an introduction to pay pools and a mock pay-pool setting in a classroom.

And then, finally, it may not be well known, but we use a tool, a performance-management tracking tool, which allows you to look at the distribution of scores that develops the order of merit list in either a pay pool or a bonus deliberation and to check for statistical anomalies before it's approved. So, just like in the military services, before the secretary of the Navy signs something, he looks at the distribution.

Our tool is also pretty sophisticated. If an individual were to choose to rate someone [low] and it was completely out of bounds over his normal rating profile, the tool will reject the score. It understands that that person is on a vendetta or a mission and it does not count that score. So we think we have a lot of the checks and balances in place to allow us to understand what's happening in terms of both pay decisions and bonus decisions before they are finalized.

QUESTION: I was going to say, just a quick follow-up, you've done 60 town-hall meetings. What's the reaction been from the participants in the town-hall meetings?

MR. ALLISON: You have to understand that the vast majority of them have a great opportunity to be rewarded based on performance and that very few of them, as Ron pointed out, it's the unsatisfactory. And I don't think many of our employees view themselves unsatisfactorily. So, on that one level, they say, okay, I know where I'm going to be and this isn't as draconian as I was led to believe by the rumors.

The next thing they're worried about, though, is their relationship to their supervisors. So what we've done is, in our system, we have formalized a meeting to outline and agree upon expectations. We've formalized the mid-term report and that includes two parts: where the individual employee assesses their progress – and that's forwarded to the supervisor where he can – he or she – can then compare and they'll have a discussion about that. Our system now forces that midterm discussion to be about real expectations. That's a tough area. That's a culture change because Americans are traditionally used to damning with faint praise as opposed to candid discussions about performance and whether you meet them or not.

The work force has been a little bit concerned only about the fact that 15 grades have been collapsed into five bands, which sort of is a hard thing to get your mind around because you could live in one band for your whole career. So your pay is moving up at the same rate as before, but nothing happens to you. You're still a three. And, unfortunately, there are some people who are identifying themselves by that number and people like to go from 10 to 11 to 12. You know, it had a psychic component to it.

So we're looking into ways that we can provide psychic gratification – (laughter) – separate from the number that is attached to your particular leave and earnings statement. And then, finally, I think the employees have to recognize that, as I think Ron pointed out, at DIA, 25 percent of the employees have very little experience, less than a couple of years, with any longevity-based system. So it's not very traumatic for them at all.

The other 75 percent I have found very receptive once they have the facts. And the thing that we've done to give them the facts is, we've created a DCIPS 101 handbook, which is pretty substantial. It's gone to supervisors. The one for employees comes out in, I think, two weeks. And it really gives you all of the details that you need so that we can remove that uncertainty, which leads to the fear. And I think we're well on the way towards doing that.

QUESTION: Could you talk a little bit more about pay pools because I often hear employee concerns that some pay pools have more money in them than others, that some functions programs are favored by Congress, the administration more than others, so those pay pools have more money. Is that a correct perception?

MR. ALLISON: Well, since I haven't actually – our first pay pool that will result in a payout doesn't occur until the end of 2009 with the payout being in January of 2010. I probably should defer to Laura, who has actually dealt with pay pools. But they have to be large enough to be statistically significant. Occupations are grouped accordingly. And I'll make my point from the point of view of DIA who's looking at this as first to implement it. More people – that chart you

have in front of you, I think, as a matter of fact – more people are looking at an individual’s record than ever before, which has to be, inherently, a good thing.

MS. SNOW: Steve, back to your question about some pay pools getting more money than others. We do it according to a percentage of the base salary of the individuals in the pay pool. So, for example, 2.5 percent if that’s going to be the General Schedule increase for the year. We would allocate that to every pay pool. Now, as John has said earlier, what you need to do is have a pay pool that is at least 25 individuals in order to give you, statistically, enough variation in their ratings so that you can make a meaningful distribution to your higher performers.

What we recommend is that pay pools be at least 50 to 100, but, in all cases, 25 or more just so you do have that statistical variation. Managers also have the opportunity to add more funds to a pay pool if you have a very high-achieving pay pool, for example, individuals who might be supporting the global war on terrorism, putting in a lot of extra effort.

QUESTION: Can you talk about the formula that’s going to be used to determine how the shares will be distributed, tell us a little bit more about that?

DR. SANDERS: Sure. Shares is one way of describing the output although, in our case, we’ve decided that may not send the right message. It will actually just be described in terms of dollars. But it’s simply taking the amount of money in the pay pool – you know, here is \$100 – and the formula is going to tell you how to distribute that \$100 amongst employees based on your rating. So an employee with an “outstanding” rating is going to get more of that \$100 than somebody with a “successful” one.

You simply take the sum total of all of those performance ratings. And I’ll – at the risk of having you guys kick me under the table, I’ll use shares even though we haven’t really used that term in the system. But it makes the math a little easier so, you know, “outstanding” employees get four, “excellent” get three, “successful” get two. For every “outstanding” rating, you know, add four. So let’s say there’s 10 employees and \$100 in the pay pool. You have four “outstanding” employees? That’s four times four. If you have three “excellent” employees, that’s three times three, and so on. And then you simply take the sum total of that, divide it into the dollars, and that tells you that for every one of those increments – that’s probably a better word is an increment – for every one of those increments, it’s worth – again, I don’t have the numbers in front of me; I’ll make up one. Let’s say every increment is worth \$5. All right. I’m an “outstanding” employee; I get four increments. The formula translates that into \$20.

Now, your rate range comes into play and it’s simply looking at where you fit on that curve. We’ve used something called a midpoint formula, which is classic sort of compensation practice. And that’s to take the employee’s salary and divide it by the midpoint or market point of the rate range. We’re going to start with midpoints, just as a General Schedule does, as a placeholder for market. We are not yet sophisticated enough to actually begin worrying about departing from the General Schedule’s view of the market and trying to figure out our own. That’s two, three, four years away. But we do have the flexibility to do that.

So, until that occurs, the midpoint of the range is the market point. You simply take somebody's salary and divide it by that midpoint salary. The simple math is, if their salary is below that midpoint, the factor comes out to be more than one. If their salary is above the midpoint, the factor comes out to be less than one and you simply multiply that factor times that first calculation.

So if I'm below the midpoint and my increment is \$20 and let's say my salary is – the calculation says midpoint – salary over midpoint equals 1.2. So I multiple 1.2 times 20 and that's my payout. And, again, it fits along that curve. And while that may sound complicated, it is intended, again, to mirror the basic salary progression model of the General Schedule. I hope that's reasonably clear.

QUESTION: It will be four, three, two for “outstanding”?

DR. SANDERS: No. It's – actually, every dollar is an increment. But I can't do the numbers like that in my head so I've dumbed it down for me. (Laughter.) I suspect, if you all are interested, we could come up with an example, a real one.

QUESTION: You mentioned that you'd be paying out at least as much money as would have gone to people under the GS system. One thing that people are worried about at NSPS is that with the higher pay raises to the outstanding performers, that the people at the lower end might not be doing as well. Are you going – because they didn't add more money to the amount of money that is going to be handed out for NSPS. Will you be raising the pool of money, increasing the pool of money that you will be devoting to pay raises?

DR. SANDERS: What we've promised in the directives is that we would spend no less. Now, we've deliberately constrained ourselves because, unlike NSPS, we could have said, we're going to put everything, the GS, the locality, the money we spend on within-grades, and everything else, put all of that in the performance-pay pot and put it all at risk. That gives you maximum flexibility. And the net result is – at least on the surface – looks like fairly substantial pay increases. But, you know, hidden in there is also some or all of the GS and the locality increase.

We've said, in part to overcome some of the anxiety that's associated with this, we've said that, at the outset, “successful” employees are going to get the GS and locality. That means everybody “successful” and above will get it. That reduces the amount available for performance payouts, but it also reduces the anxiety and uncertainty. And so our conclusion was, it was worth it. We want employees to accept this. We don't want them to fear it. As John said, our employees don't think – the vast majority of employees don't ever believe they're unacceptable, but they don't yet know where they may fall in this new performance-rating scheme.

So if you assure them, look, if – everyone thinks they're at least a satisfactory employee. And if you assure them that as a satisfactory employee, you're not going to be hurt by this, then, you know, a lot of the concern dissipates.

QUESTION: Sara Carter, Washington Times – is there recourse for employees who believe they’ve been unfairly assessed? Is there something that they can do if they feel that they’ve been unfairly assessed in this new system? Have you changed anything or is there a –

DR. SANDERS: There are a couple of avenues of redress. So let’s assume that even with all of those oversight mechanisms, an employee still feels that he or she has been treated unfairly. They have the right to request reconsideration of their performance rating. They also have the right to file a grievance or appeal under their particular agency complaint system. And this is another one where it varies all across the IC because of our interesting statutory structure.

So we haven’t tried to standardize that. Every agency has a grievance procedure of one form or another. Employees can always exercise the right to file a grievance under those procedures on whatever time limits and parameters those procedures allow. And then, of course, we haven’t touched any of the external complaint processes. An employee can file a discrimination complaint, for example, if they believe that the rating or the payout was based on some unlawful consideration.

I think you may be the last word.

QUESTION: Over time, as employees learn to –

DR. SANDERS: Love this?

QUESTION: And meet the standards that are set out, then I assume that everyone will be at very high ratings. And will you be breaking the bank here? I mean, the private sector solves some problems by giving stock options. Are you going public and going to raise more capital to do that? (Laughter.)

DR. SANDERS: Oh, I saw there was a book out today on privatizing the intelligence community. No, we are not. One of the reasons we’ve adopted this two-part approach to performance management – looking at what and how – on the how part, on those performance elements, those six common ones that – and they’re all competency-based, employees can get very high ratings on those. That’s how they behave and, frankly, we should strive to see everybody highly rated in those areas. It’s the results side that we expect to vary because, as Laura pointed out, we have a huge variety of missions. In some cases, people are working 24/7 supporting the global war on terror. And so, in any given year, an individual’s performance objectives may vary and the results may vary. That’s usually going to be how performance is differentiated.

On the house side, on the manner performance, those behaviors, it wouldn’t disturb anybody to see our employees continue to receive high ratings, but – and this is right out of OPM and OMB – 51 percent or more, the single most important factor in an individual’s final rating is going to be results. So that coupled with the definitions for the rating levels – you know, for example, “outstanding” requires something extraordinary – we believe it will control that inflation.

QUESTION: And ambitious employees then would try to gravitate to the programs that are hot and sexy at that moment because that's where they can show results.

DR. SANDERS: That may be, but there's also going to be a lot of other employees there.

(Crosstalk)

DR. SANDERS: Thank you, all.