

STATEMENT OF

MR. BRADLEY BUNN
PROGRAM EXECUTIVE OFFICER
NATIONAL SECURITY PERSONNEL SYSTEM
DEPARTMENT OF DEFENSE

BEFORE THE

SENATE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL
WORKFORCE, AND THE DISTRICT OF COLUMBIA
UNITED STATES SENATE

ON

IMPROVING PERFORMANCE: A REVIEW OF PAY-FOR-PERFORMANCE SYSTEMS
IN THE FEDERAL GOVERNMENT

JULY 22, 2008

FOR OFFICIAL USE ONLY
UNTIL RELEASED BY THE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL
AFFAIRS SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL
WORKFORCE, AND THE DISTRICT OF COLUMBIA

BIOGRAPHY

Brad Bunn, a member of the Senior Executive Service since November 2003, was named the Program Executive Officer (PEO) of the National Security Personnel System (NSPS) in May 2008. Appointed by the NSPS Senior Executive, Deputy Secretary of Defense Gordon England, Mr. Bunn leads the comprehensive policy and program office responsible for the design and implementation of NSPS.

Prior to his appointment, Mr. Bunn was Deputy PEO, NSPS, where he served an integral role in the planning, design, development, implementation, and assessment of NSPS.

Concurrently, Mr. Bunn served as Director of the Defense Civilian Personnel Management Service (CPMS) from June 2005 to May 2008, where he supported the Under Secretary of Defense (Personnel and Readiness) and the Deputy Under Secretary of Defense (Civilian Personnel Policy) in planning, formulating, and managing civilian personnel programs, including policy support, enterprise human resources (HR) information systems, and Department-wide civilian personnel administration services for the Military Departments and Defense agencies.

Mr. Bunn has over 17 years experience in the Department of Defense (DoD) as a human resources professional holding operating and staff level positions in the areas of HR information systems management, policy development, and project management.

Mr. Bunn earned a Bachelor of Arts degree in political science from the College of William and Mary in Williamsburg, Virginia and participated in the Defense Leadership and Management Program (DLAMP). He has received the Defense Civilian Personnel Management Service Exceptional Civilian Service Award, the Navy Distinguished Public Service Award, and the Navy Meritorious Civilian Service Award.

Mr. Chairman, Senator Voinovich, and distinguished members of the Subcommittee:

Thank you for the opportunity to speak with you about the National Security Personnel System (NSPS) at the Department of Defense (DoD). Successful NSPS implementation remains a critical transformational priority for the Department, and while we are still relatively early in our implementation, it is clear that NSPS is taking root; as of today we have over 180,000 employees operating under NSPS. I'd like to give you an update on our progress.

You called this hearing to discuss pay-for-performance systems in the Federal government and specifically hear from me about the process DoD followed to develop, implement, and evaluate NSPS. We are just over two years into implementation, and like any major transformation, we have had our share of successes and challenges. I can confidently state that NSPS is working. The active engagement and participation of our senior leaders, most notably, Deputy Secretary of Defense Gordon England, speaks volumes to the commitment the Department has to the importance NSPS plays in transforming our Department.

The design of NSPS has been deliberate, well managed, and transparent, based on guiding principles that include putting mission first, respecting our employees, valuing talent, performance, and commitment to public service, and ensuring flexibility, responsibility, and accountability. We have moved carefully and deliberately to design and implement a system that achieves the Department's goal for a flexible human resources system that is credible, mission-driven, and results-oriented.

It is early in our journey, and it will take some time before the Department fully realizes all the benefits NSPS was designed to produce, but we are already seeing a powerful return on investment: an unprecedented training effort focused on performance management directed at employees *and* supervisors; greater and more frequent communication between employees and

supervisors – people are talking about performance, results, and mission alignment; and increased flexibility in competing for talent and rewarding exceptional performance. We are seeing positive movement in behaviors towards a performance culture. These returns are cause for optimism.

The purpose of NSPS is the same today as it was in 2003 when Congress gave the Department the authority to develop a more flexible civilian personnel management system - to improve our ability to execute our national security mission. As Secretary England has noted on several occasions, NSPS itself is not the goal, rather it is a tool to achieve the goal of providing an environment where people can excel. NSPS improves the way the Department hires, compensates, and rewards its civilian employees, while preserving employee protections and benefits, veterans' preference, and the enduring values of the civil service. NSPS provides a performance management system that better aligns individual performance with DoD's mission and strategic goals, as well as a rigorous evaluation system that makes meaningful distinctions in performance and rewards.

Implementation of NSPS

In November 2005, the Department and the U.S. Office of Personnel Management (OPM) jointly published final NSPS regulations, and in April 2006, the Department began implementing the human resources provisions of NSPS. Approximately 11,000 employees from numerous DoD organizations were converted to NSPS as part of our phased approach to implementation. Between October 2006 and April 2007, we converted an additional 103,000 employees. The most recent conversions took place between October 2007 and May 2008, when an additional 68,000 civilians were moved under NSPS, bringing the total number of NSPS employees to approximately 182,000. These transitions were preceded by comprehensive and

extensive training to senior leaders, managers, supervisors, and employees, with a particular focus on the performance management aspect of NSPS. From the beginning of this program, we have worked to ensure that our organizations have sufficient time and resources to accomplish the training, prepare their employees, and implement when they are ready.

The next major phase in our transition is the conversion of approximately 20,000 employees beginning in the fall of 2008. By the end of this calendar year, the total number of employees who have transitioned to NSPS will exceed 200,000 – more employees than any Cabinet-level agency except the Department of Veterans Affairs.

Key Success Factors

There are several key factors that have played a role in our progress to date. The first factor was the extensive consultations the Department and OPM carried out with our stakeholders including employees, managers, supervisors, employee representatives, members of Congress, and a number of public interest groups. During the design phase, the Department held hundreds of town hall meetings, focus groups, and other outreach efforts to hear from multiple stakeholders. We reviewed thousands of written comments during the initial rulemaking process. While it was impossible to accept every suggestion and recommendation, each one was thoughtfully considered, and the Department changed and adapted the system to respond to this important input.

The second factor is the value and investment placed in monitoring implementation and making adjustments along the way. My predecessor and I have hosted several leadership conferences to collect and share lessons learned, review progress, and determine necessary changes. Feedback from leaders on the “front line” of implementation has been very useful in identifying areas that need attention, including improvements to automation, communications,

and training.

The third factor is the feedback we solicit and receive from our employees. As a result of employee feedback, we have made several adjustments. For instance, employees and supervisors expressed the need for additional training and tools on writing effective job objectives and performance assessments. As a result, we expanded our training and launched a new tool on our website to assist employees with these critical activities. Supervisors expressed a need for additional guidance on compensation management and pay setting – in response, we issued comprehensive guidance. We are also working on enhancing the competencies and skills of our human resources professionals, so they are better equipped to consult and support organizations under NSPS. Broad communication and transparency is a hallmark of our implementation process as demonstrated by our public website. From April 2006 through June 2008, the site has received over 107 million visits.

The fourth and final success factor is the Department’s robust training program. It is one of the most extensive civilian-focused training initiatives ever undertaken by the Department. From conversion through the appraisal cycle, we have provided our employees multiple training opportunities on core NSPS elements, with a special focus on the performance management system. Training is offered in a variety of formats and through diverse channels, from classroom instruction to online self-paced sessions. As of June 2008, our employees have completed over a half million NSPS-related courses. In addition to training on NSPS mechanics, employees and supervisors are trained in “soft skills.” Supervisory training focuses on how to build, coach, and mentor employees and teams; techniques for conducting effective performance conversations; and how to manage change. Employee training focuses on how to communicate and interact with their supervisor and focus on outcomes and results. Our goal is to make sure participants

understand NSPS and their roles in making it successful.

Pay Pool Process

NSPS has gone through two performance cycles and completed its second performance-based payout in January of this year. NSPS is designed to promote a performance culture in which the performance and contributions of civilians are fully recognized and rewarded. The NSPS performance management system provides a rigorous and robust method for appraising and evaluating employee performance based on standard performance benchmarks, with safeguards in place to ensure employees are treated equitably and fairly.

Last November, 974 pay pool panels met to review appraisals, assign ratings, and allocate performance-based salary increases and bonuses. The pay pool process, which has a proven track record in our personnel demonstration projects, is designed to ensure that appraisals and pay decisions are accomplished in a consistent, fair, and rigorous manner. The pay pool process ensures that managers and supervisors apply consistent standards when rating employees and includes a structured way for leaders to discuss individual and team performance within the context of mission and organization goals.

Under NSPS, employees are evaluated on a five-level rating system, with “1” being unacceptable, “3” being a valued performer, and “5” representing role model performance. Of the more than 100,000 employees rated last year, 57 percent received a Level 3 (Valued Performer); 36 percent received a Level 4 (Exceeds Expectations); and five percent received a Level 5 (Role Model). Less than 2 percent of employees received a Level 2 (Fair), and only .2 percent received a Level 1 (unacceptable) rating. These ratings resulted from deliberate and rigorous reviews of rating official and employee narrative assessments of performance in comparison with standard DoD-wide performance indicators. Because NSPS is a pay for

performance system, these performance ratings drove salary increases and bonuses, with exceptional performers receiving greater rewards, and unacceptable performers receiving no increase or bonus. The average performance-based salary increase was 3.4 percent, with an average cash bonus of 1.7 percent. These ratings and payouts reflect a rigorous evaluation of performance based on standard criteria, and demonstrate meaningful differentiation in levels of performance and the associated rewards.

To ensure fairness in the system, we built safeguards into the process. In addition to the thorough reviews of performance evaluations through the pay pool process, which includes a final review and approval by senior leadership (known as a Performance Review Authority, or PRA), employees have the right to challenge their rating through a formal reconsideration process. Most importantly, forced distribution of ratings (i.e., setting pre-established limits, targets, or goals for the percentage or number of ratings that may be assigned at any or at each level) is strictly prohibited.

Impact of NDAA FY08

As with any system implementation, we anticipate and expect NSPS to evolve and change over time. As a result of statutory changes included in the National Defense Authorization Act for Fiscal Year 2008, certain aspects of NSPS have changed. These changes include:

- bringing NSPS under government-wide rules for labor-management relations, adverse actions, disciplinary appeals, and reduction in force;
- excluding Federal Wage System (blue collar) employees from NSPS coverage;
- requiring that NSPS employees with a performance rating above “unacceptable” receive at least 60 percent of the annual government-wide General Schedule pay increase as a base

salary increase (with the remaining portion allocated to pay pools for performance-based increases); and

- requiring that NSPS employees with a performance rating above “unacceptable” receive local market supplement adjustments in the same manner as General Schedule locality pay increases.

On May 22, 2008, DoD and OPM jointly published proposed regulations for public comment in the *Federal Register* to conform to the provisions of the NDAA FY08 and to make modifications as a result of operational lessons learned over the past two years. We have received over 500 comments on the proposed regulations and are reviewing them to determine what changes will be made in the final regulations. Concurrent with the *Federal Register* process, we engaged in national consultation with the ten unions holding DoD national consultation rights. We anticipate publication of the final regulation later this year.

Program Evaluation

One of the key ingredients to effective program management is program evaluation, and this applies to NSPS. The Department has an ongoing evaluation effort – a mechanism to monitor effectiveness – to ensure the system is delivering the results we expect. The Department has a comprehensive approach to assessing NSPS that includes: continuous learning and adjustment through monitoring and lessons learned discussions; in-depth, comprehensive analysis and assessment of empirical data; and adaptation of best practices from OPM and the Government Accountability Office (GAO) for assessing alternative personnel systems.

We are looking at data and information from a variety of sources, including annual performance and payout results; annual surveys of the DoD civilian workforce (including targeted sampling of NSPS employees); field visits and focus groups with NSPS organizations;

leadership meetings and lessons learned workshops; samples of NSPS performance plans; analysis of personnel transactional data; feedback from human capital accountability reviews; and special studies of high-interest topics. Results and findings from these assessment efforts will be used to inform NSPS design and policy reviews.

In addition to internal reviews, the Department continues to work with OPM in its assessments of NSPS. Last year, preparedness and the implementation process was reviewed. This year, OPM will look at our progress since the first year. Further, GAO has a current engagement on performance management system safeguards and accountability mechanisms. We will carefully consider findings and recommendations from these efforts as we move forward.

The Department has also gained considerable insights from the evaluations of the other DoD personnel demonstration projects, including those in place at the Defense Laboratories. All of these are important features of our spiral implementation methodology which allows us to make adjustments to the system as we move forward.

Although we have not formally reported findings from our internal assessments, I can share some of what we are hearing and seeing. NSPS is a significant change, particularly in the area of performance management, for employees and supervisors. It requires more time and energy than previous systems, and many of our employees are not yet completely comfortable with the system. Performance plans and assessments need improvement, as many are struggling with translating organizational goals into individual, results-oriented, and measurable job objectives. Employees have expressed concern over the pay pool process, and whether it produces fair results. It is clear, however, that employees have a better understanding of how

their jobs relate to the mission and goals of the organization, and there is increased communication between employees and supervisors about performance.

Some employees are struggling with the idea of receiving a Level 3 (Valued Performer) rating in a five-level system, particularly those who converted from systems where almost all employees received the highest rating. Some supervisors have reported difficulty in fully understanding how the pay pool panel process works, including gaining a common understanding of the various rating levels. That said, many supervisors report that they are glad to have a system that allows them to recognize and reward top performers.

We have heard from Pay Pool Managers who reported using their experiences and feedback from the workforce to modify local business rules and practices, alter pay pool structure, and change pay pool panel membership. Organizations have reported the importance and value of conducting “mock” pay pools halfway through the year so they can work through problems before the actual process.

So far, the results we are seeing are very similar to the experience of other personnel demonstration projects and alternative personnel systems, including those within the Department. We have said from the beginning that we expect it to take three to five years for employees to fully understand and embrace the system. However, we continue to monitor and assess NSPS, and look for ways to address employee concerns by making adjustments to the system and improving our communications, tools, and training.

Is NSPS working? We believe it is. We also know that transformation takes time – it cannot be achieved overnight. We are taking the time to do it right – Secretary England has repeatedly stated that NSPS is event-driven, and we continue to approach our design and implementation with this in mind. It will take time to assess how well NSPS is working – it will

take several performance cycles for us to effectively evaluate how well the performance management and pay pool processes are working and where adjustments are needed for long-term sustainment. In the meantime, we continue to gather information and prepare to accomplish the comprehensive evaluation needed to ensure the system is credible, effective, and fair.

The Department is committed to an open, ongoing process of communication and consultation about NSPS with Congress, our employees and their representatives, and key stakeholders.

Thank you for your ongoing support of our DoD civilian workforce, and for providing me this opportunity to share our experiences with NSPS. I look forward to your questions.