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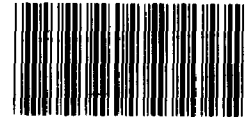
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STATEMENT OF

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ACTING COMPTROLLER GENERAL



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BEFORE THE

SUBCOMMITTEE ON CIVIL SERVICE AND GENERAL SERVICES
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

ON

THE [SENIOR EXECUTIVE SERVICE]

Mr. Chairman and Members of the Subcommittee:

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

Before I get into a more detailed discussion of our work, [there is one overriding issue which] in my opinion [is the key to the success or failure of SES--executive pay compression.]

There are about 34,000 Federal employees affected by the statutory pay limitation including virtually all members of the SES.

Retirement for employees at the pay ceiling has increased dramatically--from 17.6 percent in March 1978 to an astonishing 57.1 percent retirement rate in March 1980. The increase in the retirement rate for career employees at the pay ceiling between the ages of 55 and 59 is even greater--from 15.5 percent in March 1978 to 74.6 percent in March 1980.

With regard to SES bonuses, much has been said about the possibility that they have been used to circumvent this ceiling on executive pay. If SES bonuses have been used as a secondary compensation system for SES members and have not been used solely to reward performance, this practice is somewhat understandable when one considers that virtually all SES members receive the same salary even though there are six SES pay levels. Given the fact that top level SES members have substantially more responsible or more difficult jobs than others, but at no extra salary, it is unrealistic to expect that there will not be a tendency on the part of some to use bonuses to recognize these differences. As we have said many times before, the best way to alleviate this tendency is to allow executive pay increases which will bring about appropriate differentials among SES pay levels.)

SES PERFORMANCE APPRAISAL

We believe it is still too early to determine how well agency SES performance appraisal systems are working, or how

valid, fair, and objective they are for making pay and other personnel decisions.) It is not too early, however, to point out some problems and concerns. Experience with private sector pay-for-performance, objective-oriented systems indicates it generally takes several years, or previous experience to implement effective appraisal processes. Most agencies have not had this time or experience.)

Testing is normally needed before a system begins to operate smoothly and reliably. Few agencies had the opportunity to pretest. These first few years will be experimental. Our work has already revealed some of the difficulties agencies can expect to encounter.

This is not to say that agencies have not tried to implement good systems. We believe most are taking the challenge seriously. But, because implementation is a slow process, it will be several years before one can realistically assess how effective agencies have been.

We are currently identifying existing and potential impediments to the implementation of SES performance appraisal systems so that agencies and OPM can take corrective actions before problems become too difficult to overcome. Our work has shown that many procedures, which experts agree should be employed were not used or were only minimally used when implementing SES performance appraisal systems.) For example, most agencies

did not test their systems before implementing them, had not established specific evaluation plans, and had not adequately trained users of the system.

Despite these concerns, SES executives who responded to a GAO questionnaire appeared to be generally optimistic about the future of the SES performance appraisal process. At least a majority of the executives supported their agency's performance appraisal system. About 60 percent were receptive to having a results-oriented performance appraisal linked to a rewards process.

On the other hand, about 38 percent of the SES executives who responded to our questionnaire were indifferent to, against, or had no opinion about their agency's performance appraisal system-- in other words, they were unwilling to say that they supported it. About one-third of the total SES respondents did not think that setting objectives and receiving performance feedback would improve performance and 36 percent did not think bonuses and rank awards were likely to contribute to improved performance.

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

- Failure to see value in the appraisal process and consequently feeling it is a distraction forced on them which makes their jobs more difficult.

- Belief that

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

While we do not believe one should draw conclusions from this preliminary information, we do think it signals areas for agency, OPM, and congressional concern. Because these untested systems are being used for decisions about retention, bonuses, and other personnel actions, we believe it is critical that agencies and OPM quickly develop and implement formal evaluation methods to insure that their SES performance appraisal systems are valid, fair, and objective and that problems which arise are quickly solved.

SES PERFORMANCE AWARDS AND RANKS

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

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

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

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

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

Awards Going to Higher Levels

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

- Among level 5 and 6 executives, 55 percent received bonuses and ranks. Executives at these two levels comprised 16 percent of the rated SES population, and they received 30 percent of the awards given.
- Among level 4 executives, 28 percent received bonuses and ranks. Level 4 executives comprised 63 percent of the rated SES population, and they received 60 percent of the awards given.
- Among level 1 through 3 executives, 16 percent received bonuses and ranks. Executives at these three levels comprised 20 percent of the rated SES population, and they received 11 percent of the awards given.

According to agency officials higher level executives received a large share of the awards because of the following factors:

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

For the most part, these are factors customarily used to set compensation levels and are usually reflected in basic salary differences. In view of the salary compression brought about by the executive pay problem and the inherent difficulty in

ignoring these factors when evaluating employees, it is not surprising they are affecting the distribution of bonuses and ranks.

Awards to Performance
Review Board Members

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

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

(Rank awards were decided on by panels of executives from inside and outside the Government.) In our visits to three agencies we found rank award recipients were ruled ineligible to receive a bonus. Further, at the Department of Energy, three PRB members

were selected to serve in part because they had received rank awards and therefore were ineligible for bonus consideration.

All three agencies had procedures that precluded PRB members from considering themselves or any person they had rated for performance awards. At IRS, the Treasury Department's PRB reviewed performance for any member sitting on the IRS PRB.

Most Agencies Awarded Maximum
Number of Allowable Bonuses

Many agencies exceeded OPM's guidance to limit bonuses to 20 percent of career eligible executives. We cannot determine if all bonuses which exceeded the limit were endorsed by OPM because OPM gave some approvals orally, not documenting their consent for the record.

Of the 3 agencies we visited, 2 exceeded the 20-percent limit. State Department gave 8 performance awards (21.6 percent) rather than 7 which would have complied with OPM guidance, but they reduced the award amounts to the individuals so the total amount awarded stayed about the same. IRS gave 49 awards (21.4 percent) instead of 46. Both had received approval from OPM to exceed 20 percent.

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

SES CONVERSIONS, TRANSFERS,
AND REASSIGNMENTS

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

From September 1, 1980, to January 26, 1981, 10 individuals were converted from noncareer and limited term SES to career SES positions. OPM analysts reviewed the competitive selection process before these conversions were sent to OPM's Qualifications Review Board. Based on our review, these conversions appeared proper.

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

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