

November 2008

# RESULTS-ORIENTED MANAGEMENT

## Opportunities Exist for Refining the Oversight and Implementation of the Senior Executive Performance-Based Pay System



GAO

Accountability \* Integrity \* Reliability



Highlights of [GAO-09-82](#), a report to congressional requesters

## Why GAO Did This Study

Agencies are allowed to raise pay caps for their Senior Executive Service (SES) members if the Office of Personnel Management (OPM) certifies and the Office of Management and Budget (OMB) concurs that their appraisal systems meet applicable criteria. As requested, this report examines selected agencies' policies and procedures for (1) factoring organizational performance into SES appraisal decisions, (2) making meaningful distinctions in SES performance and (3) building safeguards into SES systems. Also, this report examines OPM and OMB oversight in certifying the pay systems through their statutory roles. GAO selected six agencies based on mission, structure, and number of career SES variations. GAO analyzed the agencies' policies and fiscal year 2007 aggregate SES appraisal data and OPM guidance.

## What GAO Recommends

GAO recommends that the United States Agency for International Development (USAID) provide uniform organizational performance assessments to reviewing officials to help inform their executive appraisal recommendations. GAO makes several recommendations to OPM and OMB to strengthen its communication to agencies on certification decisions and to improve the efficiency of the certification process. USAID, OPM, and OMB generally agreed with the recommendations.

To view the full product, including the scope and methodology, click on [GAO-09-82](#). For more information, contact Robert Goldenkoff at (202) 512-6806 or [goldenkoffr@gao.gov](mailto:goldenkoffr@gao.gov).

## RESULTS-ORIENTED MANAGEMENT

### Opportunities Exist for Refining the Oversight and Implementation of the Senior Executive Performance-Based Pay System

#### What GAO Found

**Factoring organizational performance into senior executive appraisal decisions:** All of the selected agencies—the U.S. Departments of Defense, Energy, State, and the Treasury; U.S. Nuclear Regulatory Commission; and USAID—have policies in place that require senior executives' performance expectations to be aligned with organizational results and organizational performance to be factored into appraisal decisions. While almost all of the agencies provided and communicated the importance of considering organizational performance, USAID did not provide its performance review board members (PRB) and other reviewing officials with any specific information on organizational performance to help inform their executive appraisal recommendations.

**Making meaningful distinctions in senior executive performance:** All of the selected agencies have multiple rating levels in place for assessing senior executive performance. For the fiscal year 2007 appraisal cycle, senior executives were concentrated at the top two rating levels, which raises questions about the extent to which meaningful distinctions based on relative performance are being made and how OPM applies this criterion. OPM has an opportunity to strengthen its communication with agencies and executives on the importance of using a range of rating levels when assessing performance while avoiding the use of forced distributions.

**Building safeguards into senior executive performance appraisal and pay systems:** All of the selected agencies have safeguards, including higher level reviews of performance appraisal recommendations, PRBs, and transparency in communicating the aggregate results, although agencies varied in how they implemented such safeguards.

While generally satisfied with OPM's and OMB's oversight, officials at the selected agencies said OPM could strengthen its communication with agencies and executives on how it uses the SES performance appraisal data and correlation between ratings and performance pay in determining whether agencies are making meaningful distinctions based on relative performance. Further communication from OPM is important in order for agencies to have a better understanding of how they are being held accountable for these certification criteria and make the necessary improvements to their systems to maintain certification. Further, senior-level officials at the selected agencies suggested options—such as moving to an electronic submission process and lengthening the certification coverage beyond 2 years once their systems are operating at the fully certified level—to increase the efficiency of the process. Moving forward, it will be important for OPM and OMB to identify ways to improve the certification process and make it more streamlined while ensuring that agencies have the guidance, tools, and training they need to implement effective performance appraisal and pay systems for their senior executives.

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## Abbreviations

CHCO	chief human capital officer
DOD	Department of Defense
DOE	Department of Energy
EX	Executive Schedule
NRC	Nuclear Regulatory Commission
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PAAT	Performance Appraisal Assessment Tool
PAR	performance and accountability report
PART	program assessment rating tool
PMA	President's Management Agenda
PRB	performance review board
SES	Senior Executive Service
SFS	Senior Foreign Service
SL	senior level
SPO	senior performance official
ST	scientific or professional
USAID	United States Agency for International Development

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United States Government Accountability Office  
Washington, DC 20548

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November 21, 2008

The Honorable Daniel K. Akaka  
Chairman  
The Honorable George V. Voinovich  
Ranking Member  
Subcommittee on Oversight of Government Management, the Federal  
Workforce, and the District of Columbia  
Committee on Homeland Security and Governmental Affairs  
United States Senate

The Honorable Byron L. Dorgan  
Chairman  
Subcommittee on Interstate Commerce, Trade, and Tourism  
Committee on Commerce, Science and Transportation  
United States Senate

To successfully respond to the array of complex challenges facing the nation—including long-term fiscal imbalance, evolving national and homeland security threats, and turmoil in global financial markets—the federal government must build the capacity to plan more strategically, react more expeditiously, and focus on achieving results. Strategic human capital management is the centerpiece of federal agencies' efforts to transform to meet these challenges. Senior executives need to lead the way in transforming their agencies to become more results-oriented, collaborative in nature, and customer-focused. In 2003, Congress and the administration modernized the performance appraisal and pay systems for members of the Senior Executive Service (SES) by requiring a clearer link between individual performance and pay.<sup>1</sup> Specifically, agencies are allowed to raise SES basic pay and total compensation caps if the Office of Personnel Management (OPM) certifies, with the concurrence of the Office of Management and Budget (OMB), that their performance appraisal systems, among other things, link performance for senior

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<sup>1</sup>National Defense Authorization Act for Fiscal Year 2004, Pub. L. No. 108-136, November 24, 2003; 5 U.S.C. § 5382.

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executives to the organization's goals and make meaningful distinctions based on relative performance.<sup>2</sup>

In our past work on performance management and pay issues, we have reported that performance-based pay cannot be simply overlaid on most organizations' existing performance management systems.<sup>3</sup> Rather, as a precondition to effective pay reform, individual expectations must be clearly aligned with organizational results, communication on individual contributions to annual goals must be ongoing and two-way, meaningful distinctions in employee performance must be made, and cultural changes must be undertaken. Most important, leading organizations have recognized that effective performance management systems create a "line of sight" showing how unit and individual performance can contribute to overall organizational goals and can help them drive internal change and achieve external results.<sup>4</sup> Effective performance management systems that hold executives accountable for results can help provide continuity during times of leadership transition, such as the upcoming change in administration, by maintaining a consistent focus on organizational priorities.

OPM's recently released governmentwide SES survey results found that senior executives across the government recognize the importance of linking pay to performance, with about 93 percent of the respondents strongly agreeing or agreeing that pay should be based on performance. In addition, the majority of senior executives reported that their salary increases and bonuses were linked to their performance ratings to a very great or great extent. However, senior executives recognized the challenge of making meaningful distinctions in performance—a key criterion for agencies' certification of their SES appraisal systems. Specifically, less than a third of senior executives governmentwide strongly agreed or agreed that bonuses or pay distinctions were meaningfully different among executives.

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<sup>2</sup>Relative performance means the performance of a senior employee with respect to the performance of other senior employees, including their contribution to agency performance, where appropriate, as determined by the application of a certified appraisal system. 5 C.F.R. § 430.402.

<sup>3</sup>GAO, *Human Capital: Symposium on Designing and Managing Market-Based and More Performance-Oriented Pay Systems*, [GAO-05-832SP](#) (Washington, D.C.: July 27, 2005).

<sup>4</sup>GAO, *Human Capital: Senior Executive Performance Management Can Be Significantly Strengthened to Achieve Results*, [GAO-04-614](#) (Washington, D.C.: May 26, 2004).

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At your request, this report examines selected agencies' policies and procedures for their career SES performance appraisal and pay systems in three key areas: (1) factoring organizational performance into senior executive performance appraisal decisions, (2) making meaningful distinctions in senior executive performance, and (3) building safeguards into senior executive performance appraisal and pay systems. Collectively, these three areas cover half of the nine criteria that are critical to appraising and rewarding senior executive performance that agencies must meet to be certified by OPM and OMB.<sup>5</sup> In addition, this report examines how OPM and OMB are providing oversight to the certification of the senior executive performance-based pay system through their statutory roles. In July 2008, we testified before the Senate Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia on our preliminary results of the selected agencies' policies and procedures for their SES performance-based pay systems.<sup>6</sup> This report supplements the information provided in our July 2008 testimony.

For this review, we selected the U.S. Departments of Defense (DOD), Energy (DOE), State, and the Treasury; the U.S. Nuclear Regulatory Commission (NRC); and the United States Agency for International Development (USAID) based on variations in agency mission; organizational structure; size of their career SES workforces to reflect agencies with a large, average, and small number of executives; and results of their SES performance appraisal systems in terms of the percentage of SES rated at the highest rating levels and the percentage that received performance awards or bonuses from fiscal years 2004 to 2006, according to OPM's governmentwide data reports. To meet our objectives, we analyzed these agencies' SES performance management documents; analyzed OPM's guidance; interviewed cognizant senior-level agency officials regarding their SES performance-based pay systems and their views on OPM's and OMB's oversight of the certification process; interviewed senior-level OPM and OMB officials who oversee the certification review process on their oversight of the SES performance-

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<sup>5</sup>These three areas fit into the alignment, results, assessments and guidelines, performance differentiation, and pay differentiation criteria. See app. II for a description of all nine criteria.

<sup>6</sup>GAO, *Human Capital: Selected Agencies Have Implemented Key Features of Their Senior Executive Performance-Based Pay Systems, but Refinements Are Needed*, [GAO-08-1019T](#) (Washington, D.C.: July 22, 2008).



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based pay system and certification process; and analyzed aggregate SES performance appraisal and compensation data as provided by the agencies and comparable governmentwide data as reported by OPM for fiscal year 2007. Appendix I contains a detailed discussion of our objectives, scope, and methodology.

We checked the agency SES performance appraisal data for reasonableness and the presence of any obvious or potential errors in accuracy and completeness. We also reviewed related agency documentation, interviewed agency officials knowledgeable about the data, and brought to the attention of these officials any concerns or discrepancies we found with the data for correction or updating. The agency officials confirmed the correctness of the data or in some cases provided corrections to the data, which we used in our analysis. On the basis of these procedures, we believe the data are sufficiently reliable for use in the analyses presented in this report.

The examples of the selected agencies' policies and procedures for their SES performance-based pay systems are not generalizable to the governmentwide SES population and all executive branch agencies. We did not assess how the selected agencies are implementing all the policies and procedures for their SES performance-based pay systems. We recognize that focusing on 1 year of appraisal data may not show the complete picture of how agencies are making meaningful distinctions in senior executive performance. An agency may have implemented a policy related to the study objectives even if it is not specifically highlighted in this report. We conducted our work from October 2007 through November 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Results in Brief

All of the selected agencies require senior executives' performance expectations to be aligned with organizational results and are factoring organizational performance into appraisal decisions. While almost all of the selected agencies provided the organizational performance assessments and communicated the importance of considering organizational performance to individuals involved in appraisal decisions, USAID did not provide its performance review board (PRB) members and other reviewing officials with any specific information on organizational

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performance to help inform their senior executive appraisal recommendations. As for making meaningful distinctions in senior executive performance, all of the selected agencies have multiple rating levels in place for assessing senior executive performance and five of the selected agencies have tier structures or prescribed performance payout ranges based on the resulting performance rating. For the fiscal year 2007 appraisal cycle, senior executives were concentrated at the top two rating levels, which raises questions about the extent to which meaningful distinctions based on relative performance are being made and how OPM applies this criterion. At almost all of the agencies, the highest-performing executives, rated as “outstanding” (level 5), made up the greatest percentage of eligible executives receiving bonuses with the largest bonuses on average, but at some agencies, these executives did not make up the greatest percentage of executives receiving pay adjustments with the largest increases on average. Specifically, at Treasury, executives rated at levels 5, 4, and 3 on average received about the same pay adjustment amounts, primarily due to pay cap issues. As part of making meaningful distinctions in performance, OPM has emphasized to agencies through its certification guidance that its regulations prohibit forced distribution of performance ratings and that agencies must avoid policies or practices that would lead to forced distributions or even the appearance of it. OPM has not provided specific guidance to agencies on how to make meaningful distinctions in senior executive performance while avoiding the perception of forced distributions of performance ratings. OPM has an opportunity to strengthen its communication with agencies and executives regarding the importance of using a range of rating levels when assessing performance while avoiding the use of forced distributions. Communicating this information to agencies can help agencies begin to transform their cultures to one where a fully successful rating is valued and rewarded. All of the selected agencies have safeguards including higher-level reviews of performance appraisal recommendations, PRBs, and transparency in communicating the aggregate results, although agencies varied in how they implemented such safeguards.

OPM and OMB, as applicable, provide continuing oversight by issuing guidance to agencies on revisions to the certification process, using tools and other initiatives to help assess how agencies are implementing their systems, providing training and forums, and interacting with agencies on the review of their certification submissions. While generally satisfied with OPM’s and OMB’s oversight, officials at the selected agencies said OPM could strengthen its communication with agencies and executives on how it uses the SES performance appraisal data and the correlation between ratings and performance pay in determining whether agencies are making

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meaningful distinctions based on relative performance. Further communication from OPM is important in order for agencies to have a better understanding of how they are being held accountable for these certification criteria and make the necessary improvements to their systems to maintain certification. The senior-level officials at the selected agencies also suggested options—such as moving to an electronic submission process and lengthening the certification coverage beyond 2 years once their systems are operating at the fully certified level—to increase the efficiency of the certification submission process. OPM recognizes that extending coverage would require a statutory change, and OPM is not taking a position on lengthening coverage at this time.

To help ensure consistency and clarity in how organizational performance is considered in appraising executive performance, we recommend that the Administrator of USAID provide uniform organizational performance assessments to PRB members and other reviewing officials to help inform their appraisal recommendations for senior executives at the end of the performance appraisal cycle. To help improve agencies' understanding of certain aspects of the certification decisions, we recommend two areas for the Acting Director of OPM to take action to strengthen OPM's communication with agencies and executives on the importance of making meaningful distinctions in performance while avoiding the use of forced distributions and that a fully successful rating is valued and rewarded; and how it uses the SES performance appraisal data and the correlation between ratings and performance pay in determining whether agencies are making meaningful distinctions based on relative performance as measured through the pay and performance differentiation certification criteria. In addition, to help improve the efficiency of the certification submission process for agencies, we recommend that the Acting Director of OPM and Director of OMB explore opportunities for streamlining the certification process, such as electronic submissions or lengthening the full certification coverage beyond 2 years for agencies that received full certification.

We provided a copy of the draft report to the Secretaries of Defense, Energy, State, and the Treasury; the Commissioners of NRC; the Administrator of USAID; the Acting Director of OPM; and the Director of OMB for their review and comment. DOE had no comments on the draft report. We received written comments from DOD and OPM, which are included in appendixes III and IV. NRC, OMB, State, Treasury, and USAID provided clarifying and technical comments, which we incorporated as appropriate. Regarding our recommendations, USAID, OPM, and OMB expressed general agreement. The Acting Director stated that OPM looks

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forward to working with agencies and OMB to find ways to further improve communications with the agencies concerning the certification process. OMB generally agreed with our assessment and recommendation regarding the possibilities of streamlining the certification process to improve efficiency and potentially extending full certification coverage beyond 2 years. OMB stated that it agrees with OPM that careful review of the newly passed law and its effect will be necessary before considering such an extension. Regarding our discussion of pay compression, OPM stated that it is not comfortable with the identification of tiers as a means to address SES pay compression. While we recognize OPM's concern about agencies' use of tiers, we are not recommending the use of tiers as a way for agencies to address future problems with pay compression and have revised the language in the report to clarify this point.

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## Background

Since 2000, Congress and OPM have gradually shifted to performance-based pay for senior executives through legislative and regulatory changes.

- In October 2000, OPM amended its senior executive performance management regulations requiring agencies to (1) hold senior executives accountable for their individual and organizational performance by linking performance management with the results-oriented goals of the Government Performance and Results Act of 1993; (2) evaluate senior executive performance using measures that balance organizational results with customer satisfaction, employee perspectives, and any other measures agencies decide are appropriate; and (3) use performance results as a basis for pay, awards, and other personnel decisions.<sup>7</sup> While emphasizing the use of performance results as the basis for pay and other awards, members of the SES still received the annual across-the-board and locality pay adjustments.
- In 2002, Congress raised the total annual compensation limit—from Executive Schedule (EX) level I to the total annual compensation payable to the Vice President—for senior executives and other senior professionals in agencies with systems that have been certified by OPM with OMB concurrence as having performance appraisal systems which as designed and applied make meaningful distinctions based on

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<sup>7</sup>5 C.F.R. § 430.301(b).

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relative performance.<sup>8</sup> The act instructed OPM and OMB to promulgate regulations regarding certification that, if met by an agency, would allow it to access the higher total compensation cap, which includes bonuses and other forms of compensation.

- In 2003, Congress changed the basis for how agencies pay their senior executives and the overall SES pay structure.<sup>9</sup> Beginning in January 2004, senior executives no longer received annual across-the-board or locality pay adjustments. Agencies are to base pay adjustments for senior executives on individual performance and contributions to the agency's performance by considering the individual's accomplishments and such things as unique skills, qualifications, or competencies of the individual and the individual's significance to the agency's mission and performance, as well as the individual's current responsibilities. In addition, the SES pay structure changed from six pay levels to a single, open-range pay band with a higher basic pay cap—EX-level III for agencies without certified appraisal systems and EX-level II for agencies with such systems. For calendar year 2008, the pay caps are \$158,500 for basic pay (EX-level III) with a senior executive's total compensation not to exceed \$191,300 (EX-level I). If an agency's senior executive performance appraisal system is certified by OPM and OMB concurs, the caps are increased to \$172,200 for basic pay (EX-level II) and \$221,100 for total compensation (the total annual compensation payable to the Vice President).

To qualify for senior executive pay flexibilities, agencies' performance appraisal systems are evaluated against nine certification criteria and any additional information that OPM and OMB may require to make determinations regarding certification. OPM's and OMB's certification criteria are broad principles that position agencies to use their pay systems strategically to support the development of a stronger performance culture and the attainment of their mission, goals, and objectives. (See app. II for additional information on the certification criteria). Two levels of performance appraisal system certification are available to agencies—full and provisional. Through a law passed in October 2008, an agency's certification now lasts for up to 24 months, with the possibility of a 6-month extension by the OPM Director, rather

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<sup>8</sup>The Homeland Security Act of 2002, Pub. L. 107-296, § 1322, November 25, 2002; 5 U.S.C. § 5307.

<sup>9</sup>National Defense Authorization Act for Fiscal Year 2004, Pub. L. No. 108-136, November 24, 2003; 5 U.S.C. § 5382.

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than a calendar-year-based coverage.<sup>10</sup> Previously, an agency's certification lasted for 2 calendar years for full certification and 1 calendar year for provisional certification.

In addition to SES employees, many agencies use senior employees with scientific, technical, and professional expertise, commonly known as senior-level (SL) and scientific or professional (ST) positions. An agency may apply to OPM and OMB for certification of its SL/ST performance management system, and if its system is certified as making meaningful distinctions in relative performance, an agency may raise the total annual compensation maximum for SL/ST employees to the salary of the Vice President. Beginning in April 2009, the recently passed law allows certified agencies to raise the basic pay cap for SL/ST employees to EX-level II—the same maximum rate of basic pay as SES members, and also exempts SL/ST employees from receiving locality pay.<sup>11</sup> Previously, SL/ST employees under certified appraisal systems had a maximum rate of basic pay equal to EX-level IV plus locality pay up to EX-level III. However, unlike the SES, their individual rate of pay does not necessarily have to be based on individual or agency performance.

OPM has a key leadership and oversight role in the design and implementation of agencies' SES performance-based pay systems by certifying that the agencies' systems meet the certification criteria before they can receive the pay flexibilities.<sup>12</sup> In our January 2007 report examining the senior executive performance-based pay system, we made a series of recommendations to OPM designed to address issues specific to the performance-based pay system, such as sharing best practices, tracking progress towards goals, and developing a timeline for issuance of certification guidance. We are following up on the status of these recommendations through this report.

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<sup>10</sup>Senior Professional Performance Act of 2008, Pub. L. No. 110-372, § 3, October 8, 2008.

<sup>11</sup>Senior Professional Performance Act of 2008, Pub. L. No. 110-372, § 3, October 8, 2008.

<sup>12</sup>GAO, *Office of Personnel Management: Key Lessons Learned to Date for Strengthening Capacity to Lead and Implement Human Capital Reforms*, [GAO-07-90](#) (Washington, D.C.: Jan. 19, 2007).

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## Selected Agencies Are Generally Addressing Key Areas Related to the Certification Criteria through Their SES Performance-Based Pay Systems, but an Opportunity for Refinement Exists

The selected agencies are generally addressing three key areas related to OPM's and OMB's certification criteria through their SES performance-based pay systems— factoring organizational performance into senior executive performance appraisal systems, making meaningful distinctions in senior executive performance, and building safeguards into senior executive performance appraisal and pay systems. However, USAID did not provide its PRB members and other reviewing officials with any specific information on organizational performance to help inform their senior executive appraisal recommendations.

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## Selected Agencies Have Policies for Factoring Organizational Performance into Appraisal Decisions, but USAID Did Not Provide Organizational Performance Information to Reviewing Officials

In our past work on performance management, we identified the alignment of individual performance expectations with organizational goals as a key practice for effective performance management systems.<sup>13</sup> Having a performance management system that creates a “line of sight” showing how unit and individual performance can contribute to overall organizational goals helps individuals understand the connection between their daily activities and the organization's success. To receive certification of their systems, agencies are to align senior executive performance expectations with the agency's mission, strategic goals, program and policy objectives, or annual performance plan and budget priorities. While many agencies are doing a good job overall of aligning executive performance plans with agency mission and goals, according to OPM some of the plans do not fully identify the measures used to determine whether the executive is achieving the necessary results, which can affect the executive's overall performance appraisal. This challenge of explicitly linking senior executive expectations to results-oriented organizational goals is consistent with findings from our past work on performance management.<sup>14</sup>

To help hold senior executives accountable for organizational results, beginning in 2007, OPM required agencies to demonstrate that at least 60 percent of each senior executive's performance plan is focused on

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<sup>13</sup>GAO, *Results-Oriented Cultures: Creating a Clear Linkage between Individual Performance and Organizational Success*, [GAO-03-488](#) (Washington, D.C.: Mar. 14, 2003).

<sup>14</sup>[GAO-04-614](#).

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achieving results and has clear measures associated with those results to show whether the goals have been achieved to be certified. The selected agencies have designed their appraisal systems to address OPM's requirement of aligning individual expectations with organizational goals. For example, in setting expectations for individual performance plans, DOE requires senior executives and supervisors to identify three to five key performance requirements with metrics that the executive must accomplish in order for the agency to achieve its strategic goals. Weighted at 60 percent of the summary rating, the performance requirements are to be specific to the executive's position and described in terms of specific results with clear, credible measures (e.g., quality, quantity, timeliness, cost-effectiveness) of performance, rather than activities. For each performance requirement, the executive is to identify the applicable strategic goal in the performance plan. To ensure that agencies are implementing their policies for alignment of performance expectations with organizational goals, OPM requires agencies as part of their certification submissions to provide a sample of executive performance plans, the strategic plan or other organizational performance documents for establishing alignment, and a description of the appraisal system outlining the linkage of executive performance with organizational goals.

Further, OPM requires agencies to factor organizational performance into senior executive performance appraisals to receive certification of their SES appraisal systems. According to OPM and OMB officials overseeing the certification review process, the main sources of organizational performance that agencies use are the performance and accountability reports (PAR); program assessment rating tool (PART) summaries, which capture agencywide as well as program- or office-specific performance; and the President's Management Agenda (PMA) scorecards, as applicable. However, agencies have the flexibility to determine the format and type of organizational performance information for the performance appraisal process and certification submissions, according to OMB's lead official for the certification review process.

All of the selected agencies have policies in place for factoring organizational performance into senior executive appraisal decisions and have identified common organizational assessments—such as the PMA, PAR, or PART results—for highlighting organizational performance results. As a next step, a few of the agencies, such as NRC and Treasury, have developed customized tools summarizing organizational performance at different levels of the organization, such as the bureau, office, or program levels to help ensure that senior executive appraisal decisions are consistent with organizational performance. For example, NRC provides



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summary reports capturing office-level performance to rating and reviewing officials to ensure that these officials have the information they need to make consistent assessments between senior executive and organizational performance. At the midpoint and end of the appraisal cycle, NRC's senior performance officials (SPO)—two top-level executives responsible for assessing organizational performance—conduct assessments for each office that take into account quarterly office performance reports on their operating plans, an interoffice survey on the office's performance completed by the other directors as identified by NRC, as well as the office director's self-assessment of the office's performance.

To assess bureau-level performance, Treasury uses a departmentwide organizational assessment tool that provides a "snapshot" of each bureau's performance across various indicators of organizational performance, such as the PAR, PART results, PMA areas, OPM's Federal Human Capital Survey results, budget data, and information on material weaknesses. PRB members and reviewing officials receive copies of the organizational performance assessments, which serve as a basic framework for reviewing and recommending senior executive ratings, pay, and bonuses to help ensure ratings and pay are consistent with the organization's performance. According to Treasury's Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer (CHCO), the indicators of organizational performance are updated throughout the year as organizational performance is always changing and the senior executives need to have a sense of the organization's performance at all times.

Prior to the completion of individual performance ratings, agencies are to communicate organizational performance to senior executives, PRB members, and other reviewing officials—including supervisors who complete the ratings—involved in appraisal decisions to ensure they understand the effect organizational performance can have on rating distributions. Almost all of the selected agencies provided organizational performance assessments and communicated the importance of considering organizational performance in individual appraisals through briefings, training, or document packages for the PRB meetings. One agency, however, did not provide any specific information regarding organizational performance to PRB members and other reviewing officials.

- DOD provided the heads of its components with a departmentwide organizational assessment against its overall priorities for fiscal year 2007 that was to be used in appraising senior executive performance and, as a check across the components, asked for copies of the

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training given to PRB members and other reviewing officials on factoring organizational performance into senior executive appraisal recommendations. According to the Principal Director to the Deputy Under Secretary of Defense for Civilian Personnel Policy, the components had the flexibility to use the departmentwide assessment and to develop their own organizational assessments. Component organizational assessments were required to be linked to the departmentwide priorities and assessment. Component organizational assessments can provide a level of specificity that enables a clearer connection or “line of sight” between individual executive and organizational performance. Having the components provide the department with their communications of organizational performance and how it was used to inform executive rating decisions provides accountability across the components for the departmental performance management policies, according to this official.

- DOE provides its PRB members with snapshots of the Consolidated Quarterly Performance Reports relevant to the senior executives that measure how each departmental element performed respective to the goals and targets in its annual performance plan. According to the Director of the Office of Human Capital Management, the Deputy Secretary also verbally briefed PRB members on the importance of considering organizational performance in appraising executive performance.
- For its most recently completed appraisal cycle, State for the first time provided PRB members an organizational assessment composed of various indicators from the most recent PART, PMA scorecard, and PAR.<sup>15</sup> For the previous appraisal cycle, PRB members received various documents, such as senior executives’ performance plans and appraisals and the performance management policy, but did not receive any specific assessments of organizational performance. According to a senior human resources official at State, based on OPM’s and OMB’s feedback for its 2008 certification submission, the agency has committed to providing organizational performance results in its guidance to the PRB members on how to consider organizational performance in making individual senior executive appraisal recommendations, among other things.

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<sup>15</sup>State’s senior executive performance appraisal cycle ended on July 31, 2008. The appraisal cycle is from August 1 to July 31.

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- In contrast, USAID did not provide its PRB members and other reviewing officials with any specific information on organizational performance to help inform their senior executive appraisal recommendations for the fiscal year 2007 appraisal cycle. According to a senior human resources official at USAID, the agency does not provide PRB members and reviewing officials with these organizational performance assessments because they know where to find the relevant information applicable for each senior executive's performance appraisal given the small size of the agency. Nevertheless, providing and communicating uniform organizational performance assessments can help ensure consistency and clarity in how organizational performance is considered in appraising executive performance among PRB members, rating officials, and other reviewers. According to USAID's Deputy Director for Human Resources, USAID has developed various indicators of organizational performance—such as individual operating unit reports, the Agency Financial Report, the PMA, PART results, and the Congressional Budget Justification outlining agency performance and other information—which are readily available for use by PRB members and other reviewing officials responsible for appraising senior executive performance.

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**Selected Agencies Use Various Mechanisms to Help Make Meaningful Distinctions in Performance, but Senior Executives Were Concentrated at the Top Two Rating Levels and Received Varying Performance Payout Amounts**

Effective performance management systems make meaningful distinctions between acceptable and outstanding performance of individuals and appropriately reward those who perform at the highest level. In order to receive OPM certification and OMB concurrence, agencies are to design and administer performance appraisal systems that make meaningful distinctions based on relative performance through performance rating and resulting performance payouts (e.g., bonuses and pay adjustments). To address the certification criteria of performance and pay differentiation, agencies are to use multiple rating levels—four or five levels including a level for outstanding performance—and recognize the highest performing executives with the highest ratings and largest pay adjustments and bonuses, among other things.

**Selected Agencies Designed Their Appraisal Systems to Help Make Meaningful Distinctions in Senior Executive Performance**

Five of the selected agencies designed their appraisal systems to help allow for differentiations when assessing and rewarding executive performance by establishing tier structures or prescribed performance payout ranges based on the resulting performance rating.

- For example, NRC uses three tiers called position groups to differentiate its senior executives' basic pay and the resulting bonus amounts based on ratings received at the end of the appraisal cycle.

NRC divides its executives into three groups (A, B, and C) based on the position’s difficulty of assignment and the scope of responsibilities and annually sets basic pay ceilings for each of the groups tied to the EX pay levels. NRC uses the position groups and resulting performance ratings as the basis for its bonus structure to help ensure that executives in the higher position groups with the higher performance ratings receive the larger bonuses, as shown in table 1. In fiscal year 2007, an executive in the highest position group A who received an outstanding rating was to receive a \$30,000 bonus, while an executive in the lowest group C with the same rating was to receive a \$20,000 bonus. According to a senior human resources official at NRC, the bonus range for executives in group C with excellent ratings was intended to help allow for meaningful distinctions in performance to be made within that group, as well as to give the agency flexibility in the monetary amounts of the bonuses awarded.

**Table 1: NRC’s SES Position Groups with Basic Pay Ceilings and Resulting Bonus Amounts Based on Position Group and Performance Ratings for the Fiscal Year 2007 Appraisal Cycle**

Examples of SES positions by group	Basic pay ceiling (comparable to EX pay)	Resulting bonus amount based on performance rating received		
		Outstanding	Excellent	Meets expectations
<b>A:</b> Executive Director for Operations, Chief Financial Officer, General Counsel, and major program office directors (e.g., Director of the Office of Nuclear Reactor Regulation)	\$172,200 (EX-level II)	\$30,000	\$25,000	\$0
<b>B:</b> Support and small program office directors (e.g., Directors of the Offices of Administration and Human Resources), Deputy Directors of the Offices of the General Counsel, and the Chief Financial Officer	165,350 (Midpoint between EX-levels II and III)	25,000	20,000	0
<b>C:</b> All other SES members	158,500 (EX-level III)	20,000	8,000–13,800	0

Source: NRC.

Notes: NRC has a five-level appraisal system, but senior executives in the two lowest rating categories—unsatisfactory and needs improvement—are not eligible to receive bonuses based on their performance ratings. The governmentwide basic pay cap for SES under certified performance appraisal systems is EX-level II.

- State uses a six-tier structure to help differentiate executive performance based on the ratings and bonuses and allocate pay adjustment amounts for its senior executives, with senior executives who are placed in the highest tier (I) receiving a larger percentage pay

adjustment than those in a lower tier (V), who received the annual percentage adjustment to the EX pay schedule—2.5 percent in 2008.

- In 2008, DOD implemented a departmentwide tier structure to help ensure comparability and transparency in SES position and compensation management with pay ceilings for each of the tiers tied to EX-level II and III pay rates. Specifically, DOD assigned SES positions to three tiers based on the position’s impact on mission, level of complexity, span of control, and influence in joint, national security matters, among other things. According to the Principal Director, DOD is now using the tier structure to differentiate executive performance payouts to recognize that high-level performance in some positions has more impact than comparable performance in other positions. Further, DOD uses a mathematical formula to differentiate the performance payout amounts among its senior executives based on the recommended performance rating, performance score, and performance payout shares, as shown in table 2. In determining the number of performance payout shares to recommend, rating officials are to consider areas such as the executive’s level of responsibility, mission impact, current basic pay, and performance against the relative performance of other executives, if applicable. The formula for computing the actual amount of the performance payout takes into account various indicators, such as the budget for bonuses and pay increases, annual adjustment to the EX pay rates, and total salaries and number of performance shares for all the senior executives in the pay pool.

**Table 2: DOD’s Performance Scores and Performance Payout Shares by Performance Rating for the Fiscal Year 2007 Appraisal Cycle**

Performance rating	Performance score	Performance payout shares
Exceptional results	95-100	11, 12, 13, 14, 15, or 16
Exceeds expected results	86-94	7, 8, 9, or 10
Achieved expectations	70-85	1, 2, 3, 4, 5, or 6
Minimally satisfactory	51-69	0
Unsatisfactory	0-50	0

Source: DOD.

- DOE sets prescribed ranges tied to performance ratings for its senior executives prior to finalizing ratings to help create a greater distinction between bonus amounts for top and middle performers and differentiate pay adjustment caps. Specifically, for fiscal year 2007, DOE required that all executives receiving an outstanding rating receive a bonus of 12 to 20 percent of basic pay, while executives

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Selected Agencies Rated Their Senior Executives at the Top Two Rating Levels with Varying Bonus and Pay Adjustment Amounts

receiving a meets expectations rating were eligible to receive a bonus of 5 to 9 percent at management's discretion.<sup>16</sup> For pay adjustments, executives were eligible to receive a discretionary increase of up to 5 or 7 percent of basic pay if rated at meets expectations or outstanding, respectively. Executives who received needs improvement or unsatisfactory ratings were not eligible for any bonuses or pay increases.<sup>17</sup>

We have reported that using multiple rating levels provides a useful framework for making distinctions in performance by allowing an agency to differentiate among individuals' performance.<sup>18</sup> As required for certification, all of the selected agencies have four or five rating levels in place for assessing senior executive performance. For the fiscal year 2007 appraisal cycle, senior executives were concentrated at the top two rating levels, as shown in figure 1. At State and USAID, about 69 percent and 60 percent of senior executives, respectively, received the top performance rating. At the other four agencies, the largest percentage of executives received the second highest rating—ranging from about 65 percent at NRC to 45 percent at Treasury. Conversely, less than 1 percent of senior executives across the selected agencies received a rating below fully successful (level 3). As a point of comparison, about 47 percent of career SES governmentwide received the top performance rating for fiscal year 2007, according to governmentwide data as reported by OPM. Similar to the selected agencies, less than 1 percent of career senior executives governmentwide received ratings below fully successful for fiscal year 2007.

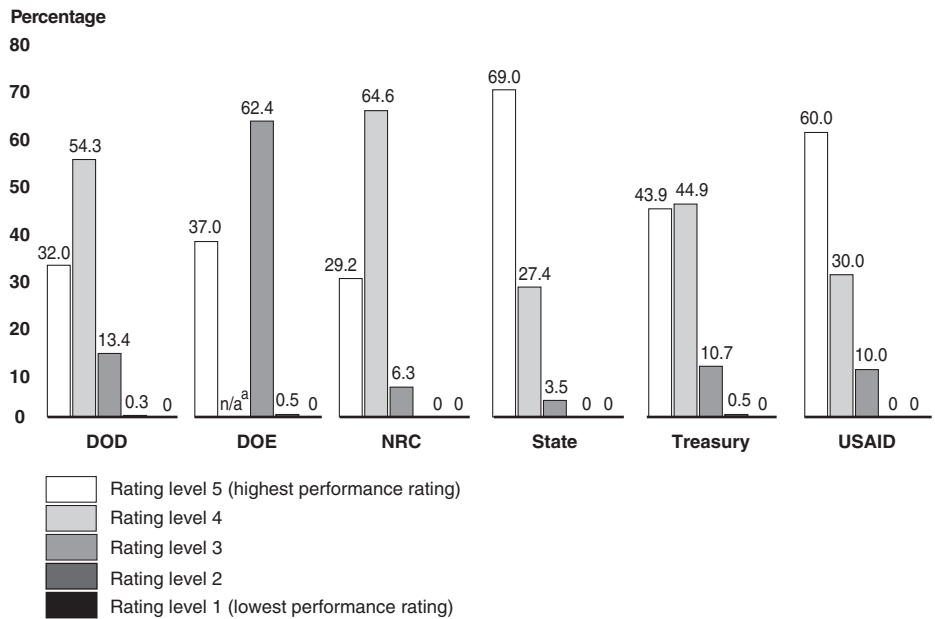
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<sup>16</sup>Agencies are permitted to award bonuses from 5 to 20 percent of an executive's rate of basic pay from a pool that cannot exceed the greater of 10 percent of the aggregate rate of basic pay for the agency's career SES appointees for the year preceding, or 20 percent of the average annual rates of basic pay to career SES members for the year preceding; 5 U.S.C. § 5384.

<sup>17</sup>DOE uses a four-level appraisal system with no rating level between outstanding and meets expectations.

<sup>18</sup>GAO, *Financial Regulators: Agencies Have Implemented Key Performance Management Practices, but Opportunities for Improvement Exist*, [GAO-07-678](#) (Washington, D.C.: June 18, 2007).

**Figure 1: Percentage of Senior Executives by Rating Level at the Selected Agencies for the Fiscal Year 2007 Appraisal Cycle**



Source: GAO analysis of agency data.

Note: The percentages may not total 100 percent due to rounding.

<sup>a</sup>DOE uses a four-level appraisal system with no rating level between outstanding (rating level 5) and meets expectations (rating level 3).

While OPM officials have certified that the selected agencies’ systems are making meaningful distinctions, performance ratings at the selected agencies raise questions about the extent to which meaningful distinctions based on relative performance are being made and how OPM applies this criterion, as indicated in figure 1. As part of making meaningful distinctions in performance, OPM has emphasized to agencies through its certification guidance that its regulations prohibit forced distribution of performance ratings and that agencies must avoid policies or practices that would lead to forced distributions or even the appearance of it. A senior OPM official acknowledged that it is difficult for OPM to determine if an agency is using forced distributions through its review of agencies’ aggregate appraisal results and policy documents. The official indicated that OPM looks at trends in the data across different components of agencies for statistical improbabilities, such as a certain percentage of SES members receiving an outstanding rating each year within an office that could be explained by a quota system. OPM has not provided specific guidance to agencies on how to make meaningful distinctions in senior

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executive performance while avoiding the perception of forced distributions of performance ratings. OPM has an opportunity to strengthen its communication with agencies and executives regarding the importance of using a range of rating levels when assessing performance while avoiding the use of forced distributions. Communicating this information to agencies will help them begin to transform their cultures to one where a fully successful rating is valued and rewarded.

Senior-level officials at three of the selected agencies recognized the challenge in using a range of rating levels when appraising senior executive performance. In a memo to all SES members, DOE's Deputy Secretary stated his concern with the negligible difference in bonuses and pay adjustments among executives receiving the top two rating levels and stressed the importance of making meaningful distinctions in the allocation of compensation tied to performance ratings in the upcoming appraisal cycle. According to State's Deputy Assistant Secretary for the Bureau of Human Resources, historically the vast majority of senior executives have received the highest rating of outstanding, including for fiscal year 2007. Since the implementation of performance-based pay, this official said State has struggled with changing the culture and general perception among senior executives that any rating less than outstanding is a failure. According to DOD's Principal Director, DOD is communicating the message that the SES performance-based pay system recalibrates performance appraisals as a way to help change the culture and make meaningful distinctions in performance. A fully successful or equivalent rating is a high standard as well as a valued and quality rating. Levels above fully successful require extraordinary results. Part of this communication is developing common benchmark descriptors for the performance elements at the 5, 4, and 3 rating levels. The Principal Director said she hopes that developing common definitions for the performance elements at all three levels will aid the development of a common understanding and in turn make more meaningful distinctions in ratings. The agency official recognizes that this shift will require a significant cultural change, and that such cultural transformation takes time.

The percentage of eligible executives who received bonuses or pay adjustments varied across the selected agencies for fiscal year 2007, as shown in table 3. The percentage of eligible senior executives who received bonuses ranged from about 92 percent at DOD to about 30



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percent at USAID, with the average dollar amount of bonuses ranging from \$11,034 at State to about \$17,917 at NRC.<sup>19</sup> All eligible executives at State received pay adjustments, while about 88 percent of eligible executives at DOE received adjustments, with the average dollar amount of such adjustments ranging from about \$5,414 at NRC to about \$6,243 at DOE. As a point of comparison, about 75 percent of career senior executives received bonuses with an average dollar amount of \$14,221 for fiscal year 2007, according to OPM's governmentwide data report. The governmentwide percentage of career senior executives receiving pay adjustments and the average dollar amount of such adjustments in the aggregate are not available from OPM's governmentwide data report for fiscal year 2007.

The selected agencies have policies in place where only senior executives who receive a rating of fully successful (level 3) or higher are eligible to receive bonuses or pay increases. Also affecting executives' bonus eligibility are the agencies' policies on awarding bonuses to executives who also received Presidential Rank Awards that year, which varied among the selected agencies.<sup>20</sup> NRC, State, and Treasury do not allow executives to receive both awards in the same year, while DOD, DOE, and USAID allow the practice.

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<sup>19</sup>Given that they both have SES and Senior Foreign Service (SFS) members, State and USAID discuss issues of executive compensation and other executive resources areas in order to maintain comparability for SES bonuses and pay adjustments between the agencies and with the SFS, according to agency officials. The Foreign Service Act of 1980, as amended, limits the percentage of SFS members who can receive bonuses to 33 percent; 22 U.S.C. § 3965. According to a senior-level State official, the percentage of SES members receiving bonuses has increased recently to between 50 to 60 percent at State due to an effort to offset regular pay increases SFS members receive through promotions.

<sup>20</sup>Agencies can nominate senior executives for Presidential Rank Awards, which recognize career senior executives who have demonstrated exceptional performance over an extended period of time. The OPM Director reviews agency nominations and recommends candidates to the President. These awards are either 20 percent or 35 percent of the recipient's basic pay.

**Table 3: Percentage of Eligible Senior Executives Who Received Bonuses or Pay Adjustments and the Average Amounts at the Selected Agencies for the Fiscal Year 2007 Appraisal Cycle**

Agency	Bonuses		Pay adjustments	
	Percentage who received bonuses	Average amount	Percentage who received pay adjustments	Average amount
DOD	92	\$13,934	95	\$5,739
DOE	82	14,116	88	6,243
NRC	87	17,917	95	5,414
State	55	11,034	100	6,148
Treasury	77	16,074	93	6,120
USAID	30	11,083	90	6,227

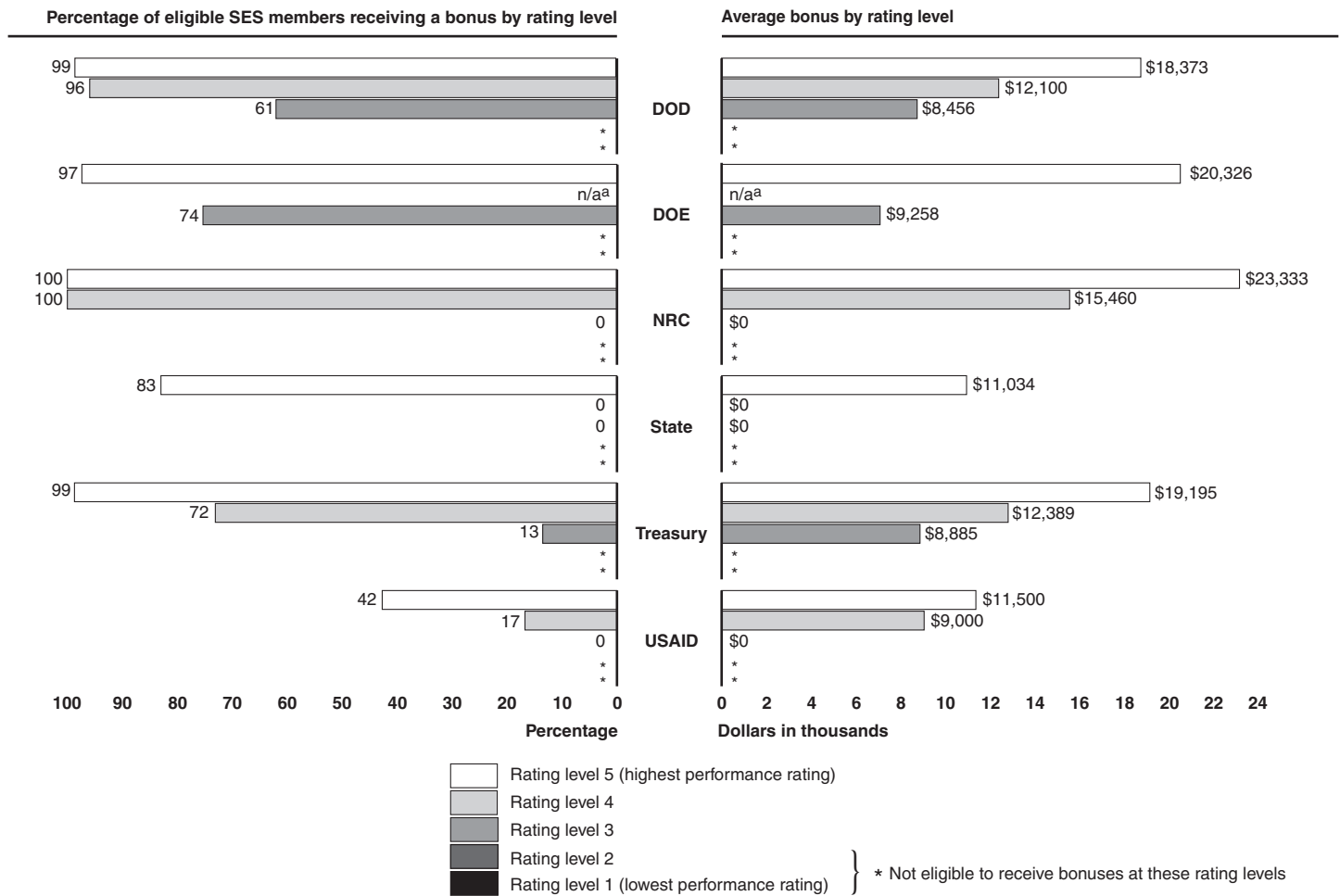
Source: GAO analysis of agency data.

Notes: In calculating the percentage of eligible senior executives who received bonuses or pay adjustments and average amounts, we excluded executives who received a rating less than fully successful since those executives are not eligible to receive bonuses or pay increases, according to the selected agencies' policies. We also excluded SES members at NRC, State, and Treasury who received Presidential Rank Awards because according to the agencies' policies, those individuals were not considered for bonuses. For all agencies, we included senior executives who were rated but left their positions—because of retirement, attrition, or assignment to a lower grade—prior to performance payouts being made.

According to OPM regulations, agencies are to recognize the highest performing executives with the highest ratings and largest bonuses and pay adjustments.<sup>21</sup> At five of the selected agencies, the highest performing executives (rated at level 5) made up the greatest percentage of eligible executives receiving bonuses. At NRC, all eligible executives rated at the top two levels received a bonus. At all the agencies, the executives rated at the highest level received the largest bonuses on average—about \$23,333 at NRC compared to about \$11,034 at State. State only awarded bonuses to executives receiving outstanding ratings for fiscal year 2007. According to State's senior human resources official, State does not have an official policy prohibiting those receiving ratings of exceeds expectations or fully successful from receiving a bonus. Rather, the agency official stated that State's decision to only award bonuses to executives who received outstanding ratings was due to budget constraints and an effort to keep the SES parallel with the SFS in the allocation of bonuses and pay adjustments. In addition, senior executives at NRC and USAID rated at fully successful (level 3) did not receive bonuses. (see fig. 2).

<sup>21</sup>5 C.F.R. § 430.404(a)(9).

**Figure 2: Percentage of Eligible Senior Executives Who Received Bonuses and the Average Bonus Amounts by Rating Level at the Selected Agencies for the Fiscal Year 2007 Appraisal Cycle**



Source: GAO analysis of agency data.

Notes: In calculating the percentage of eligible senior executives who received bonuses and average amounts, we excluded executives who received a rating less than fully successful since those executives are not eligible to receive bonuses, according to the selected agencies' policies. We also excluded SES members at NRC, State, and Treasury who received Presidential Rank Awards because according to the agencies' policies, those individuals were not considered for bonuses. For all agencies, we included senior executives who were rated but left their positions—because of retirement, attrition, or assignment to a lower grade—prior to performance payouts being made.

<sup>a</sup>DOE uses a four-level appraisal system with no rating level between outstanding (rating level 5) and meets expectations (rating level 3).

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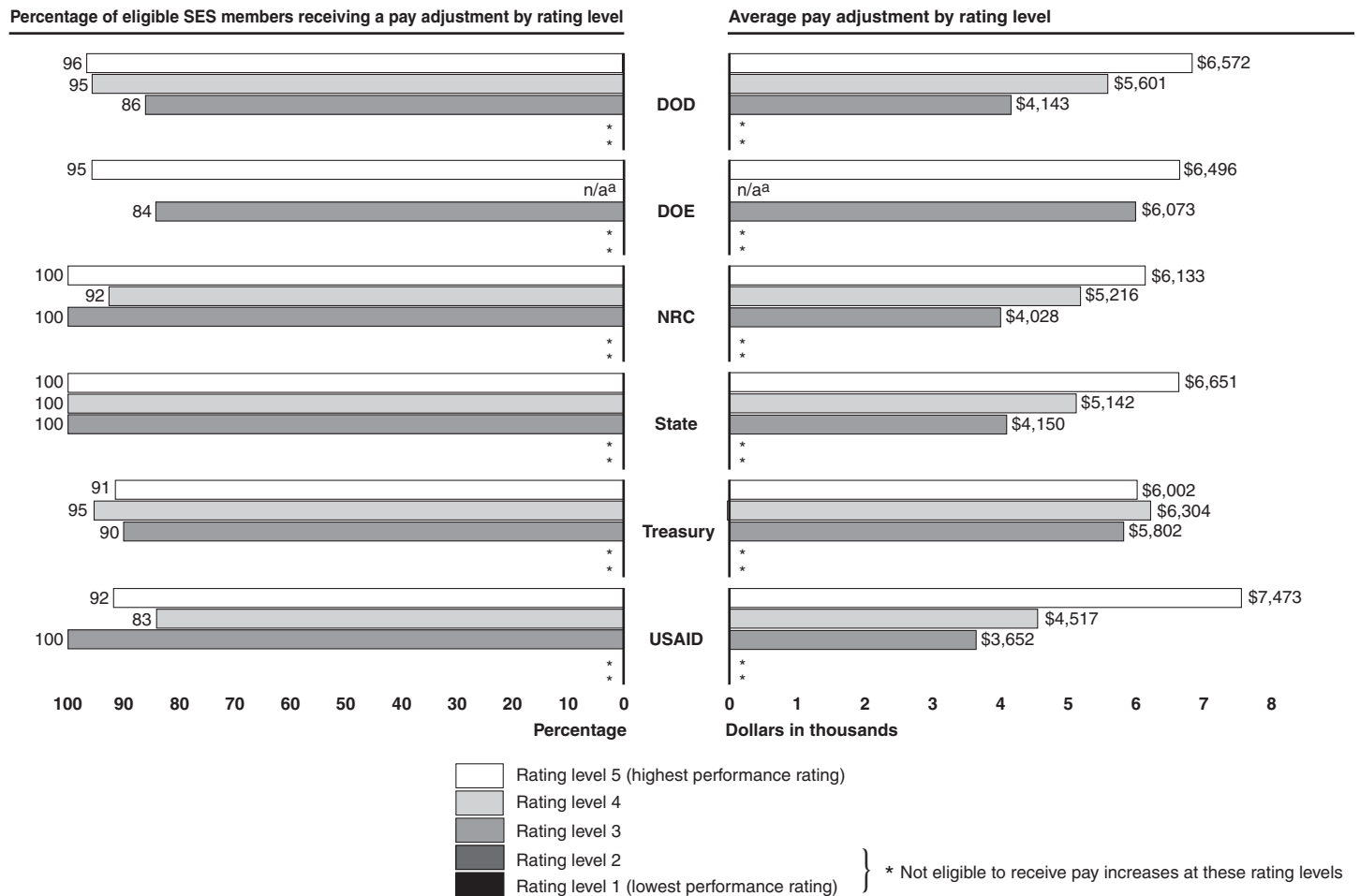
In a memo to agencies on the certification process, OPM has stated that it expects senior executives who receive a fully successful or higher rating and are paid at a level consistent with their current responsibilities will receive a performance-based pay increase. According to a senior OPM official, agencies are not required to give these executives pay increases, but OPM considers fully successful to be a good rating and encourages agencies to recognize and reward executives performing at this level. At the selected agencies, the majority of eligible senior executives rated at fully successful received pay adjustments for fiscal year 2007, as shown in figure 3.

The highest-performing executives (rated at level 5) did not make up the greatest percentage of executives receiving pay adjustments with the largest increases on average at some of the selected agencies. Specifically, at Treasury, about 95 percent of eligible executives rated at level 4 received a pay adjustment, compared with about 91 percent of eligible executives rated at level 5 and about 90 percent rated a level 3. At NRC, all of the eligible executives rated at level 5 and level 3 received pay adjustments compared with about 92 percent of eligible executives rated at level 4.<sup>22</sup> For all the agencies except Treasury, the executives rated at the highest level received the largest pay adjustments on average—about \$7,473 at USAID compared to about \$6,133 at NRC. At Treasury, executives rated at levels 5, 4, and 3 on average received about the same pay adjustment amounts, primarily due to pay cap issues.

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<sup>22</sup>At NRC, the majority of senior executives rated at level 4 who did not receive pay increases retired before performance payouts were made for the fiscal year 2007 appraisal cycle.

**Figure 3: Percentage of Eligible Senior Executives Who Received Pay Adjustments and the Average Pay Adjustment Amounts by Rating Level at the Selected Agencies for the Fiscal Year 2007 Appraisal Cycle**



Source: GAO analysis of agency data.

Notes: In calculating the percentage of eligible senior executives who received pay adjustments and average amounts, we excluded executives who received a rating less than fully successful since those executives are not eligible to receive pay increases, according to the selected agencies' policies. For all agencies, we included senior executives who were rated but left their positions—because of retirement, attrition, or assignment to a lower grade—prior to performance payouts being made.

<sup>a</sup>DOE uses a four-level appraisal system with no rating level between outstanding (rating level 5) and meets expectations (rating level 3).

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The Proximity of Senior Executives' Basic Pay to the Governmentwide Basic Pay Cap Varies Across the Selected Agencies

We have reported that the federal government as a whole may face challenges in offering competitive compensation to its senior leaders.<sup>23</sup> In 2003, about 70 percent of senior executives received the same basic pay due to compression—which occurred when their pay reached the statutory cap of EX-level III. In 2004, the SES performance-based pay system and certification process provided an interim solution to this issue of pay compression by creating a single, open-range pay band and allowing agencies to increase the basic pay cap for their senior executives to EX-level II upon certification of their performance appraisal systems by OPM with OMB concurrence.

While the pay cap was raised for certified agencies, agencies are to reserve the pay rates above EX-level III for truly outstanding performers only, which in effect slows the growth of senior executives' pay within the pay band. According to OPM regulations, the rates of basic pay higher than EX-level III but less than or equal to EX-level II are generally reserved for senior executives who have demonstrated the highest levels of individual performance and/or made the greatest contributions to the agency's performance, or newly appointed senior executives who possess superior leadership or other competencies.

The basic pay for senior executives at the selected agencies shows that pay compression may be a problem in the future for some agencies. Overall, however, only a small percentage of senior executives at the selected agencies have their basic pay capped out at EX-level II (\$172,200) in 2008. Specifically, about half to three-quarters of senior executives at the selected agencies are paid at or above EX-level III (\$158,500) in 2008, after performance-based pay adjustments were made for the fiscal year 2007 performance appraisal cycle, as shown in figure 4.<sup>24</sup> For example, at State, about 76 percent of senior executives are paid at or above EX-level III, while about 50 percent of senior executives at DOD and USAID are paid at these rates. Of the senior executives paid at or above \$158,500, the percentage of senior executives who are paid at the governmentwide pay cap for 2008—\$172,200—varies across the agencies. Specifically, at State and DOE, about 26 percent of senior executives are paid at the pay cap for 2008, while only 1 percent of senior executives at DOD and none at USAID

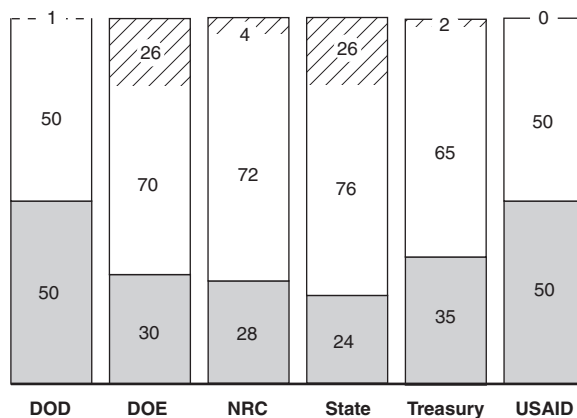
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<sup>23</sup>GAO-05-832SP and GAO, *Human Capital: Trends in Executive and Judicial Pay*, GAO-06-708 (Washington, D.C.: June 21, 2006).

<sup>24</sup>Bonuses awarded to senior executives are cash payments not added to the executives' basic pay and therefore do not count toward the governmentwide basic pay cap.

are paid at this cap. OPM has found that about 13 percent of SES members governmentwide are paid at the pay cap based on the fiscal year 2007 performance appraisal data they received from agencies.

**Figure 4: Percentage of Senior Executives at the Selected Agencies Paid According to Executive Schedule Pay Levels in 2008**



Percentage of SES members paid at or above EX-level III (\$158,500)  
 Percentage of SES members paid below EX-level III  
 Percentage of SES members paid at EX-level II (\$172,200)

Source: GAO analysis of agency data.

According to a senior OPM official, the SES performance-based pay system was never intended to fix the problem of pay compression that occurred prior to 2004 or be the answer to future pay compression issues. OPM recognizes that pay compression is a problem in the SES. While the majority of senior executives at the selected agencies have yet to reach the governmentwide basic pay cap, officials from two of the selected agencies recognized the challenge of making distinctions in executive performance given potential pay compression issues. Specifically, Treasury’s Deputy Assistant Secretary for Human Resources and CHCO said an agency does not have enough room in the governmentwide pay band to fully recognize the outstanding performers through the appraisal system since the best performers are already near the top of the pay range and their performance payouts in the form of basic pay increases are limited. DOD’s Principal Director said when pay increases are not possible given salary cap issues, bonuses are a tool for components to reward their executives’ performance for achieving results.

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NRC's three position groups and the associated pay ceilings are intended, in part, to help reserve pay above EX-III for those executives who demonstrate the highest levels of performance, including the greatest contribution to organizational performance as determined through the appraisal system, according to a senior human resources official at NRC. A senior executive would not receive a pay increase if the executive had already reached the pay ceiling for the applicable position group. While there is little room for pay increases within the pay bands for each position group, the agency official indicated that NRC tries to give pay adjustments and generous bonus amounts when possible to acknowledge that their senior executives are high-performing individuals. To identify possible areas and options for improvement to its performance appraisal and pay system including the tier structure, NRC convened an executive working group of PRB members and senior executives from different areas and position groups. As part of its June 2008 findings, the working group recommended retaining the three position groups and existing pay ceilings with slight revisions to the positions that fall within each group. NRC management accepted this recommendation, according to the agency official.

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### Selected Agencies Have Built Safeguards into Their Senior Executive Performance Appraisal and Pay Systems to Help Ensure Fairness and Transparency

We have reported that agencies need to have modern, effective, credible, and validated performance management systems in place with adequate safeguards to ensure fairness and prevent politicization and abuse.<sup>25</sup> All of the selected agencies have safeguards including higher-level reviews of performance appraisal recommendations, PRBs, and transparency in communicating the aggregate results, although agencies varied in how they implemented such safeguards.

**Higher-level reviews.** By law, as part of their SES appraisal systems, all agencies must provide their senior executives with an opportunity to view their performance appraisals and to request a review of the recommended performance ratings by higher-level officials, before the ratings become final.<sup>26</sup> The higher-level reviewer cannot change the initial rating given by the supervisor, but may recommend a different rating in writing to the

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<sup>25</sup> [GAO-05-832SP](#). For more information, including the complete list of safeguards, see GAO, *Human Capital: DOD Needs to Improve Implementation of and Address Employee Concerns about Its National Security Personnel System*, [GAO-08-773](#) (Washington, D.C.: Sept. 10, 2008).

<sup>26</sup> 5 U.S.C. § 4312(b)(3).



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PRB that is shared with the senior executive and the supervisor. For example, according to State's policy, an executive may request a higher-level review of the initial rating in writing prior to the PRB convening, at which time the initial summary rating, the executive's request, and the higher-level reviewer's written findings and recommendations are considered. The PRB is to provide a written recommendation on the executive's summary rating to State's Director General of the Foreign Service and Director of Human Resources, who makes the final appraisal decisions.

**Performance review boards.** All agencies must establish one or more PRBs to help ensure that performance appraisals reflect both individual and organizational performance and rating, bonus, and pay adjustment recommendations are consistently made. The PRB is to review senior executives' initial summary performance ratings and other relevant documents and make written recommendations on the performance of the senior executives to the agency head or appointing authority. When appraising a career appointee's performance or recommending a career appointee for a bonus, more than one-half of the PRB's members must be SES career appointees. The selected agencies varied in their PRB structures and who provided the final approval of the appraisal decisions. On the one hand, given its small number of senior executives, USAID has one PRB that is responsible for making recommendations to the Administrator for his/her final approval on all rated career executives' annual summary ratings, bonuses, performance-based pay adjustments, and Presidential Rank Award nominations. On the other hand, DOD has multiple PRBs within and across its components and agencies with separate authorizing officials who give the final approval of rating and performance payout recommendations. As another level of review after the PRB, DOE convenes a Senior Review Board—comprised mainly of political appointees—to review and approve the PRB recommendations for ratings, pay adjustments, and bonuses, and look for consistency in recommendations across the senior executives in headquarters, the field, and the various organizations within DOE. The Director of the Office of Human Capital Management said the Deputy Secretary, who serves as the chair, ultimately makes the final decisions on senior executives' ratings, pay adjustments, and bonuses.

**Transparency in communicating aggregate appraisal results.**

Agencies should communicate the overall aggregate results of the performance appraisal decisions—ratings, bonuses, and pay adjustment distributions—to senior executives while protecting individual confidentiality, and as a result, provide a clear picture of how the

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executive's performance compares with that of other executives in the agency. Further, as part of its certification decisions, OPM requires agencies to brief their SES members on the results of the completed appraisal process to make sure that the dynamics of the general distribution of ratings and accompanying rewards are fully understood. All the selected agencies communicated the aggregate appraisal results to senior executives, although their methods of communication and the types of information provided varied.

- Treasury and DOD posted the aggregate rating, bonus, and pay adjustment distributions for senior executives on their Web sites with comparison of data across previous fiscal years.
- NRC sent an e-mail to all senior executives providing the percentage of executives at each rating level and the percentage who received bonuses and pay adjustments, as well as the average dollar amounts. According to a senior human resources official at NRC, the agency periodically holds agencywide "all hands" SES meetings where the results of the appraisal cycle, among other topics, are communicated to executives.
- The Deputy Secretary of DOE provides a memo to all senior executives summarizing the percentage of executives at the top two rating levels and the average bonus and pay adjustment amounts, as well as OPM's governmentwide results as a point of comparison.
- USAID communicated the aggregate SES appraisal results to SES members throughout the appraisal cycle. In a February 2008 notice, USAID communicated to all SES members the pay adjustment distributions in ranges by rating level for the fiscal year 2007 appraisal cycle. In a September 2008 e-mail to all SES members and rating officials at the end of the appraisal cycle, USAID communicated the aggregate performance rating distributions for the past two appraisal cycles for fiscal years 2006 and 2007.

While the selected agencies all shared aggregate appraisal results with their senior executives, the results of the OPM SES survey show that the communication of overall performance appraisal results is not widely practiced throughout the government. Specifically, 65 percent of respondents said that they were not given a summary of their agency's SES performance ratings, bonuses, and pay adjustments. At the June 2008 forum with agency executive resources staff where it shared the survey results, OPM officials emphasized the importance of communicating aggregate appraisal results to all senior executives. According to a senior

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OPM official, agencies need to figure out how best to communicate aggregate appraisal results in a way that supports their different cultures and practices. The official said OPM plans to continually monitor how well the agencies are communicating aggregate appraisal results through the certification review process.

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## OPM and OMB Provide Oversight through Various Formats; Selected Agency Officials Suggested Opportunities for Refinements

To ensure agencies' senior executive appraisal systems are designed and implemented to address the certification criteria, OPM and OMB, as applicable, provide continuing oversight by issuing guidance to agencies on revisions to the certification process, using tools and other initiatives to help assess how agencies are implementing their SES performance-based pay systems, providing training and forums, and interacting with agencies on the review of their certification submissions. While generally satisfied with OPM's and OMB's oversight, officials at the selected agencies said OPM could strengthen its communication with agencies and executives on how it uses the SES performance appraisal data and the correlation between ratings and performance pay in determining whether agencies are making meaningful distinctions based on relative performance. In addition, senior-level officials at the selected agencies identified a need for increased efficiency in the certification submission process.

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## Issuing Guidance to Agencies on Revisions to the Certification Process

Providing agencies with clear and timely guidance is one way for OPM and OMB to effectively communicate with agencies upcoming revisions to the certification process. OMB does not issue its own guidance to agencies, but reviews OPM's guidance to agencies, according to OMB's lead official in the certification review process. Officials at five of the selected agencies said that, in the past, OPM has revised its guidance midway through the appraisal cycle, which did not allow agencies sufficient time to change their systems in order to receive certification for that calendar year. Recognizing that it was late in issuing the guidance in 2006, OPM since has issued guidance in the fall via memos to agency heads. In the future, OPM plans to continue issuing any changes to the guidance in the fall, according to a senior OPM official, since this is when agencies are finishing up the performance appraisal cycle and starting to set expectations for the next cycle. This should also provide agencies with adequate time to revise their appraisal systems to reflect any new requirements before the certification submission deadline at the end of June. In light of changes to the law in October 2008, in the near future OPM plans to issue regulations and revised certification guidance to agencies reflecting the modifications to SL/ST basic pay rates for certified appraisal systems and changing the

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certification cycle coverage to up to 24 months from a calendar-year-based coverage.<sup>27</sup>

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## Using Tools and Other Initiatives to Help Assess How Agencies Are Implementing Their SES Performance-Based Pay Systems

OPM and OMB use tools and other initiatives—such as the SES Performance Appraisal Assessment Tool (SES-PAAT), the correlation coefficient, and the governmentwide survey to all SES members on performance-based pay—to help assess how agencies are implementing their performance-based pay systems and addressing the certification criteria. Overall, selected agency officials were in favor of OPM and OMB using these tools and initiatives, although officials from three of the selected agencies expressed concern about how OPM calculated the correlation coefficient and the effect it had on the resulting score.

### SES-PAAT

In 2007, OPM developed the SES-PAAT to help streamline the certification process, improve the efficiency of its oversight process, and offer a more transparent and organized way for agencies, OPM, and OMB to examine SES appraisal systems, among other things. OPM first required agencies with fully certified SES appraisal systems to use this tool when requesting full certification for 2009 and 2010. Based on a set of questions that relate to the certification criteria, the SES-PAAT helps clarify the certification criteria and quantifies aspects of the certification package that agencies had previously supported through narrative form. In making an agency's certification decision, OPM and OMB consider the SES-PAAT score and the quality of the provided supporting documentation, such as the sample of individual performance plans.

OPM is hopeful that the SES-PAAT will improve the efficiency of its oversight process and the feedback provided to the agencies, but officials from our selected agencies that completed the SES-PAAT have mixed views on using this tool. OPM removed one office from the review process for SES-PAAT submissions with the intention of spending less time overseeing the continuation of full certifications and more time focusing on provisional certifications or those agencies that were in danger of dropping from full to provisional certification, according to a senior OPM official. Officials from the two selected agencies that completed the SES-PAAT for the first time said the certification submission process was more efficient with less documentation submitted overall; however, the process was still labor intensive and time consuming, specifically with regard to

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<sup>27</sup>Senior Professional Performance Act of 2008, Pub. L. No. 110-372, § 3, October 8, 2008.

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the sample of performance plans required. Even though the SES-PAAT requires agencies to submit a smaller sample of performance plans, a senior human resources official said her agency needed to do a complete review of its SES performance plans to ensure that all the plans were adequate for certification approval.

## Correlation Coefficient

To help assess in part how agencies are meeting the pay differentiation certification criterion, OPM is using a metric based on a correlation coefficient that summarizes the strength of the relationship between SES members' ratings and their performance-based pay adjustments and bonuses as part of the Human Capital Assessment and Accountability Framework's systems, standard, and metrics.<sup>28</sup> Given that at least 60 percent of executives' performance ratings are to be based on organizational results, a senior OPM official said calculating the relationship between executive ratings and performance pay provides an indication of how well an agency is recognizing its executives based on organizational results achieved.

Officials from three of the selected agencies expressed concern about how OPM calculated the correlation coefficient and the effect it had on the resulting score. Specifically, OPM decided to include in its calculations those senior executives who received Presidential Rank Awards, but because of their agencies' policies were not eligible for and did not receive bonuses. As a result, the coefficients for those agencies may show a weaker connection between SES ratings and performance pay because highly rated executives did not receive bonuses. A senior OPM official said OPM recognizes that the decision to include all executives regardless of their bonus eligibility in the correlation coefficient may have a negative effect on an agency's coefficient, especially in the case of smaller agencies with few SES members, but it is a policy decision that OPM has made to ensure that the coefficients were calculated consistently across the government. For small agencies, OPM said that a correlation coefficient may not be appropriate for determining how the agency is addressing the pay differentiation criteria; rather, OPM will review the mean, median, and mode of the agencies' total compensation including pay adjustments and

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<sup>28</sup>The correlation coefficient ranges from -1 to +1. An agency that has a strong relationship between ratings and performance pay will have a positive correlation coefficient close to +1, which indicates that the executives' summary ratings are the agencies' primary bases for determining their performance pay. An agency that has a strong negative relationship between ratings and performance pay will have a coefficient near -1. A coefficient of zero indicates there is no correlation between ratings and performance pay.

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bonuses, as applicable to determine whether higher-rated executives were rewarded appropriately.

## SES Survey

In January 2008, OPM conducted a governmentwide survey of all SES members to evaluate the performance-based pay system. While OPM found considerable variability in the executives' responses across the different agencies, according to OPM the overall results show that the vast majority of executives believe pay should be based on performance and that areas for improvement exist, for example, in communicating aggregate appraisal results to senior executives. According to selected agency officials, the SES survey results were very helpful and useful to their agency.

We previously recommended that OPM develop a strategy to allow it, other executive agencies, and Congress to monitor the progress of implementation of the senior executive performance-based pay system.<sup>29</sup> The SES survey could be a vehicle for regularly monitoring progress in the future. OPM has not committed to administering the survey on an ongoing basis, in part due to the concern of over-surveying agency officials, but plans to revisit the idea of administering the survey again in the next several years. According to a senior OPM official, the Federal Human Capital Survey is administered every 2 years and provides OPM with the opportunity to monitor senior executives' satisfaction with the appraisal process, including whether they consider their appraisals to be a fair reflection of their performance, based on the senior executives who responded. Rather, when OPM decides to administer the survey again, according to the OPM official, it plans to target the relevant issues of the day with some of the original questions in order to track trends over time.

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## Providing Training and Forums for Agency Officials to Obtain Information from OPM and Discuss Relevant Issues Regarding the SES Performance-Based Pay System

To help facilitate its communications and interactions with agency officials and the executive resources community, OPM periodically provides training and holds forums for agency officials to discuss different aspects of the SES performance-based pay system and the certification process, among other topics. Selected agency officials found the forums to be useful and helpful in understanding the certification process and requirements while allowing agencies to share lessons learned from and experiences with the certification process. OPM also finds these forums helpful in gathering agency feedback, which it considers in future

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<sup>29</sup>GAO-07-90.

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revisions to the certification process and other human capital initiatives, according to a senior OPM official. For example, in December 2007 OPM conducted four training workshops for all interested agency executive resources officials on how to complete the SES-PAAT and plans to hold sessions in December 2008 and January 2009. OPM also holds forums five times a year for executive resources staff from all agencies. At these forums, OPM and agency officials have the opportunity to discuss common concerns, obtain status updates on various OPM initiatives, and learn about future plans for the certification process and other human capital areas.

In addition, the CHCO Council chaired by the OPM Director works with agencies to develop and share leading practices in implementing human capital initiatives. For example, the CHCO Council periodically holds training academy sessions that are open to agency officials other than CHCOs to highlight and showcase human capital practices related to senior executive pay and certification issues. Specifically, over the last 2 years, the CHCO Council has held several training academy sessions related to SES performance management and pay systems, the SES-PAAT, and lessons learned from the governmentwide SES survey results. In our past work we recommended that OPM work with the CHCO Council to develop a formal mechanism for sharing leading practices for implementing human capital initiatives, such as the SES certification process.<sup>30</sup> OPM has addressed this recommendation by inviting all levels of agency officials to attend CHCO Council training academy sessions when relevant topics, such as the SES performance management and SES survey results, were featured. Moving forward, the CHCO subcommittee on performance management plans to partner with OMB's Performance Improvement Council to make improvements on SES certification and other human capital efforts.<sup>31</sup>

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<sup>30</sup>[GAO-07-90](#).

<sup>31</sup>An Executive Order in November 2007 required agency heads to appoint performance improvement officers as members of the Performance Improvement Council. These officers are responsible for coordinating the organization's performance management activities including assisting the agency head in developing and using performance measures in individual performance appraisals to ensure accountability for greater effectiveness. Exec. Order No. 13,450, 72 *Fed. Reg.* 64,517 (Nov. 15, 2007).

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## Interacting with Agencies on the Review of Their Certification Submissions

OPM provides oversight to the certification process by communicating and working directly with agencies to help them improve their systems. According to OMB's lead official in the certification review process, OPM takes the lead on the certification review process and OMB has a concurrence role focusing most of its review on specific aspects of agencies' certification submissions including aligning executive performance expectations with organizational and program goals, ensuring executives' goals are sufficiently results-oriented and challenging to drive improved performance; measuring organizational performance; and linking organizational results to the performance rating distribution. Overall, the selected agencies have positive working relationships with OPM on executive resources issues. For example, officials at five of the selected agencies found that working with OPM on the individual performance plans prior to submitting the certification package was helpful and that OPM provided useful feedback at this step in the certification process. Through its executive resources forums, OPM has also communicated directly with agencies on SES performance-based pay and the certification process, including sharing key results from the SES survey with agencies.

However, OPM could strengthen its communication with agencies and executives on how it uses the SES performance appraisal data and correlation coefficient in determining whether agencies are making meaningful distinctions based on relative performance as measured through the performance and pay differentiation certification criteria. Further communication from OPM is important in order for agencies to have a better understanding of how they are being held accountable for these certification criteria and make the necessary improvements to their systems to maintain certification. Officials at four of the selected agencies said they are unclear about how OPM uses the SES appraisal data to assess whether agencies are meeting these criteria and making meaningful distinctions in performance overall. In addition, officials at four of the selected agencies said that the communication they have received from OPM individually and through broader forums, such as OPM's executive resources forums and certification guidance, has not provided them with a clear sense of how OPM is using the correlation coefficients to determine how agencies are addressing the pay differentiation criterion. For the coefficients based on fiscal year 2006 appraisal data, OPM provided each agency with their coefficients and technical information explaining the concept of a correlation coefficient, but did not communicate to agencies how the scores were used for certification decisions. In addition, OPM gave this information only to PMA-scored agencies. OPM provided all agencies with 10 or more senior executives their correlation coefficient



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based on the fiscal year 2007 appraisal data along with some contextual information, but OPM does not address the concerns expressed by officials at the selected agencies regarding how the correlation coefficient is being used in certification decisions.

With respect to agencies' working relationships with OMB, officials at five of the selected agencies had little to no direct contact with OMB through past reviews of their certification submissions and did not have a clear understanding of OMB's role in the certification review process. However, while their interaction with OMB and understanding of its role was limited, the selected agency officials were satisfied overall with how they received OMB's feedback through OPM. OMB's feedback on agencies' systems is most commonly communicated to agencies via the letter that it sends to OPM stating its concurrence or nonconcurrence with OPM's certification recommendation, according to OMB's lead official in the certification review process. For the 2008 certification review process, OMB is working with agencies to identify areas of improvement for their appraisal systems and asking agencies to commit to working with OPM and OMB to address these areas. This communication and feedback to agencies is taking place prior to receiving OPM's and OMB's certification decisions, according to the OMB official.

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## Future Plans and Potential Refinements for the SES Performance-Based Pay System and Certification Process

OPM is considering phasing out the distinction between full and provisional certification once all agencies have received full certification. Provisionally certified agencies receive the same pay flexibilities—access to higher basic pay and total compensation—as those with fully certified systems. Currently, agencies' systems are required to meet the same criteria for both types of certification, with the only distinction being fairly subtle differences in the degree to which the agencies meet the criteria, according to OPM. When certification began in 2004, an agency needed to only meet four of the nine criteria and demonstrate that its system in design would meet the remaining certification criteria to receive provisional certification. We reported that it would be important for OPM to continue to monitor the certification process, especially for those agencies' systems with provisional certification, to help ensure that provisional certifications do not become the norm.<sup>32</sup> After that initial year, agencies' systems were required to meet all nine certification criteria to

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<sup>32</sup>GAO, *Human Capital: Agencies Need Leadership and the Supporting Infrastructure to Take Advantage of New Flexibilities*, [GAO-05-616T](#) (Washington, D.C.: Apr. 21, 2005).

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receive provisional certification, which according to a senior OPM official was done in part because agencies would have had the opportunity to produce performance data showing that meaningful distinctions were made by the second year. OPM expects that all applicant SES appraisal systems will meet full certification criteria in the future. As of October 28, 2008, 76 percent of the agency certification submissions reviewed by OPM and OMB had received full certification for calendar year 2008. According to a senior OPM official, OPM is currently revisiting the certification regulations to determine what revisions should be made.

Regarding potential refinements to the certification process, officials at the selected agencies identified a need for increased efficiency in the certification submission process given the large quantity of documents required and the time it currently takes to gather the certification package.

- For example, officials at five of the selected agencies are in favor of moving to an electronic submission process, if it reduces the amount of paper documentation that is required and streamlines the process of compiling the necessary documentation for agencies. Selected agency officials acknowledged that the certification process is moving in that direction with the SES-PAAT, which is an electronic tool. For agencies completing the SES-PAAT, OPM requested five copies of the completed tool and supporting documentation, such as the sample of performance plans and organizational performance assessments. A senior human resources official who is not using the SES-PAAT said her agency submitted to OPM seven copies of its certification package for 2007. While OPM has informally encouraged agencies through its executive resources forums or e-mail communications to submit their certification submissions electronically, according to a senior OPM official OPM has not directly discussed electronic certification submissions in its guidance and submission instructions to the agencies. In addition, officials at three of the selected agencies said that OPM could lessen agencies' reporting burden by only requiring them to submit documentation to OPM and OMB on those areas of the system where substantive changes have occurred since the previous certification submission. While OPM and OMB should receive completed certification submissions as part of their oversight responsibilities, moving to electronic documentation may help agencies more easily gather and submit the certification documents that change minimally from year to year. OPM and OMB officials both said they support electronic certification submissions and would not rule out a more electronic certification process in the future, starting with the SES-PAAT.

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- Overall, selected agency officials supported lengthening the certification coverage beyond 2 years once agencies have proved their systems are addressing the certification criteria. Currently, full certification lasts for 24 months. Specifically, the process of gathering the necessary documentation for certification submissions would be less burdensome to agencies if they had more time between recertification deadlines, according to a senior human resources official. Prior to receiving an extended certification coverage period, the agency officials acknowledged that their systems would have to be operating at the fully certified level. The lead OMB official overseeing the certification review process said OMB could potentially be supportive of lengthening the certification coverage, once agencies have their systems up and running and all agencies have full certification. Recognizing extending coverage would require a statutory change, OPM is reviewing the recently passed law that changes the certification coverage to up to 24 months from a calendar-year-based coverage, among other things, and OPM is not taking a position on extending certification coverage at this time.

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## Conclusions

OPM and OMB have taken important steps in overseeing the design and implementation of agencies' senior executive performance-based pay systems. The selected agencies' experiences with implementing their SES systems can help inform other agencies' efforts to hold executives accountable for organizational results and link pay for performance. USAID has an opportunity to strengthen the link between organizational and individual performance by providing rating and reviewing officials with specific information on organizational performance. For senior executives to lead the way in transforming their organizations to meet the complex challenges facing the nation, it will be important for them to have confidence that the SES performance-based pay system is operating as intended and that they will be rewarded according to their performance. In this regard, making meaningful distinctions among executives when assessing performance is important to the overall credibility of the SES performance-based pay system. Less than a third of senior executives governmentwide strongly agreed or agreed that bonuses or pay distinctions were meaningfully different among senior executives, according to OPM's SES survey. OPM has an opportunity to help ensure that agencies are making meaningful distinctions in executive performance by strengthening its communication with agencies and executives on the importance of using a range of rating levels when assessing performance, while avoiding forced distributions. Additionally, communicating how OPM uses data and other tools in making certification decisions will be important so that agencies can make continuous

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improvements to their systems to support the development of a stronger performance culture and the attainment of their missions, goals, and objectives. Moving forward, it will also be important for OPM and OMB to identify ways to improve the certification process and make it more streamlined while ensuring that agencies have the guidance, tools, and training they need to implement effective performance appraisal and pay systems for their senior executives.

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## Recommendations for Executive Action

To help ensure consistency and clarity in how organizational performance is considered in appraising executive performance, we recommend that the Administrator of USAID provide uniform organizational performance assessments to PRB members and other reviewing officials to help inform their appraisal recommendations for senior executives at the end of the performance appraisal cycle.

To help improve agencies' understanding of certain aspects of the certification decisions, we recommend two areas for the Acting Director of OPM to take action to strengthen OPM's communication with agencies and executives on

- the importance of making meaningful distinctions in performance while avoiding the use of forced distributions and that a fully successful rating is valued and rewarded and
- how it uses the SES performance appraisal data and the correlation between ratings and performance pay in determining whether agencies are making meaningful distinctions based on relative performance as measured through the pay and performance differentiation certification criteria.

In addition, to help improve the efficiency of the certification submission process for agencies, we recommend that the Acting Director of OPM and Director of OMB explore opportunities for streamlining the certification process, such as electronic submissions or lengthening the full certification coverage beyond 2 years for agencies that received full certification.

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## Agency Comments and Our Evaluation

We provided a copy of the draft report to the Secretaries of Defense, Energy, State, and the Treasury; the Commissioners of NRC; the Administrator of USAID; the Acting Director of OPM; and the Director of OMB for their review and comment.

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DOE had no comments on the draft report. We received written comments from DOD and OPM, which are included in appendixes III and IV. NRC, OMB, State, Treasury, and USAID provided clarifying and technical comments, which we incorporated as appropriate. With respect to making meaningful distinctions in performance, Treasury officials provided broad comments on the challenge agencies face in using the full range of rating levels given that executives are high achievers and had to exhibit exceptional performance to enter the SES. The officials suggested that meaningful distinctions can not be defined simply by the distribution of performance ratings. Our findings and recommendations about making meaningful distinctions acknowledged challenges, but also the need for additional communication from OPM in this area.

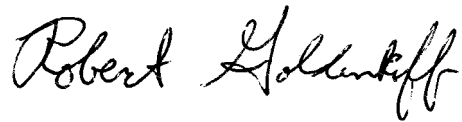
Regarding our recommendations, USAID, OPM, and OMB expressed general agreement. The Acting Director stated that OPM looks forward to working with agencies and OMB to find ways to further improve communications with the agencies concerning the certification process. OMB generally agreed with our assessment and recommendation regarding the possibilities of streamlining the certification process to improve efficiency and potentially extending full certification coverage beyond 2 years. OMB stated that it agrees with OPM that careful review of the newly passed law and its effect will be necessary before considering such an extension. Regarding our discussion of pay compression, OPM stated that it is not comfortable with the identification of tiers as a means to address SES pay compression. The Acting Director commented that using tiers results in salaries clustering around points in the salary range rather than only at the top of the range. While we recognize OPM's concern about agencies' use of tiers, we are not recommending the use of tiers as a way for agencies to address future problems with pay compression and have revised the language in the report to clarify this point.

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As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution of it until 30 days from the date of this letter. At that time, we will send copies of this report to the appropriate congressional committees; the Secretaries of Defense, Energy, State, and the Treasury; the Commissioners of NRC; the Administrator of USAID; the Acting Director of OPM; the Director of OMB; and other interested parties. The report will also be available at no charge on the GAO Web site at <http://www.gao.gov>.

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If you or your staff have any questions regarding this report, please contact me at (202) 512-6806 or [goldenkoffr@gao.gov](mailto:goldenkoffr@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix V.



Robert N. Goldenkoff  
Director, Strategic Issues

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# Appendix I: Objectives, Scope, and Methodology

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This report examines selected agencies' policies and procedures for their career Senior Executive Service (SES) performance appraisal and pay systems in (1) factoring organizational performance into senior executive performance appraisal decisions, (2) making meaningful distinctions in assessing and rewarding senior executive performance, and (3) building safeguards into senior executive performance appraisal and pay systems. In addition, this report examines how the Office of Personnel Management (OPM) and the Office of Management and Budget (OMB) are providing oversight in the certification of the senior executive performance-based pay system through their statutory roles.

We selected the U.S. Departments of Defense, Energy, State, and the Treasury; the U.S. Nuclear Regulatory Commission (NRC); and the United States Agency for International Development based on variations in agency mission, organizational structure, size of their career SES workforces to reflect agencies with a large, average, and small number of executives; and results of their SES performance appraisal systems in terms of the percentage of SES rated at the highest rating levels and the percentage that received performance awards or bonuses from fiscal years 2004 to 2006, according to OPM's governmentwide data reports. We focused on career members of the SES because they represent the majority of all SES appointments governmentwide.

To address our first and third objectives, we analyzed selected agencies' documents on their SES performance appraisal and pay systems including performance management policies, directives, guidance, and other related information; performance planning and appraisal templates; briefings, memos, and other materials used to communicate aggregate appraisal results to senior executives; and the submission documents to OPM and OMB for certification in 2007. We also interviewed cognizant senior-level officials in the human capital offices at the selected agencies regarding their agencies' SES systems and senior-level OPM and OMB officials on how organizational performance and safeguards are integrated into the certification process.

To address our second objective, we analyzed aggregate SES basic pay, performance rating, bonus, and pay adjustment data as provided by the agencies for fiscal year 2007. We defined our universe of analysis as career senior executives who received ratings. In calculating the percentage of eligible senior executives who received bonuses (cash awards) or pay adjustments (increases to basic pay) and average (or mean) amounts, we excluded executives who received a rating less than "fully successful" (level 3), as applicable, from the eligible population since those executives

are not eligible to receive bonuses, according to the selected agencies' policies, or pay increases, according to OPM regulation. We also excluded senior executives at NRC, Treasury, and State who received Presidential Rank Awards from our calculations of percentages of eligible SES members receiving bonuses and average amounts because those individuals were not considered for bonuses that year, according to the agencies' policies. In order to have consistency in our analysis across selected agencies, we included senior executives who were rated but left their positions—because of retirement, attrition, or assignment to a lower grade—prior to performance payouts being made in our analysis. The agencies' policies and practices varied in whether or not senior executives who retired were eligible for performance payouts.

In analyzing the basic pay rates, we used the rates of basic pay for rated, career senior executives after pay adjustments were made for the fiscal year 2007 appraisal cycle. We compared these basic pay amounts to the governmentwide SES basic pay range and the Executive Schedule (EX) pay levels, specifically EX-level II (the SES pay cap) and EX-level III (within the SES pay band) for calendar year 2008. EX pay rates are set at the beginning of each calendar year and because performance payouts from the completed appraisal cycle are usually paid out in January, agencies are able to use the next calendar year SES pay rates for their pay ranges. In calculating the percentage of senior executives paid at or above EX-level III, we included those SES paid at EX-level II in our calculations. For this objective, we also analyzed relevant agency policies and guidance regarding performance ratings, bonuses, and pay adjustments, and interviewed selected senior-level agency officials from the human capital offices. For the governmentwide perspective, we reviewed OPM's *Report on Senior Executive Pay for Performance for Fiscal Year 2007* to identify relevant governmentwide performance data as a comparison point for the selected agencies. We analyzed OPM memos and guidance on the certification process and criteria, and interviewed senior-level OPM and OMB officials who oversee the certification review process on how the SES performance data are used as part of the certification process.

We checked the agency data for reasonableness and the presence of any obvious or potential errors in accuracy and completeness. We also reviewed related agency documentation, interviewed agency officials knowledgeable about the data, and brought to the attention of these officials any concerns or discrepancies we found with the data for correction or updating. The agency officials confirmed the correctness of the data or in some cases provided corrections to the data, which we used



in our analysis. On the basis of these procedures, we believe the data are sufficiently reliable for use in the analyses presented in this report.

For our fourth objective, we analyzed OPM's and OMB's guidance, memos, and other documents regarding the certification process and criteria; interviewed senior-level OPM and OMB officials involved in the certification process regarding their oversight of the certification process; and interviewed senior-level agency officials from the selected agencies' human capital offices to obtain their perspectives on OPM and OMB oversight. As part of this objective, we are reporting on the status of OPM's progress toward addressing recommendations from our past work on the SES performance-based pay system and certification process.<sup>1</sup>

We conducted our work from October 2007 through November 2008 in accordance with generally accepted government auditing standards.

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<sup>1</sup>[GAO-07-90](#).

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# Appendix II: Certification Criteria for the Senior Executive Performance-Based Pay System

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In November 2003, Congress authorized a new performance-based pay system for members of the Senior Executive Service.<sup>1</sup> Agencies are to base pay adjustments for senior executives on individual performance and contributions to the agency's performance by considering the individual's accomplishments and such things as unique skills, qualifications, or competencies of the individual and the individual's significance to the agency's mission and performance, as well as the individual's current responsibilities. If an agency's senior executive performance appraisal system is certified by the Office of Personnel Management (OPM) and the Office of Management and Budget (OMB) concurs, an agency can raise the pay cap for its senior executives to \$172,200 for basic pay (Level II of the Executive Schedule) and \$221,100 for total compensation (the total annual compensation payable to the Vice President).

To qualify for senior executive pay flexibilities, agencies' performance appraisal systems are evaluated against nine certification criteria and any additional information that OPM and OMB may require to make determinations regarding certification. As shown in table 4, the certification criteria jointly developed by OPM and OMB are broad principles that position agencies to use their pay systems strategically to support the development of a stronger performance culture and the attainment of their mission, goals, and objectives.

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<sup>1</sup>National Defense Authorization Act for Fiscal Year 2004, Pub. L. No. 108-136, November 24, 2003; 5 U.S.C § 5382.

**Appendix II: Certification Criteria for the  
Senior Executive Performance-Based Pay  
System**

**Table 4: OPM's and OMB's Senior Executive Performance Appraisal System Certification Criteria**

<b>Criterion</b>	<b>Description</b>
Alignment	Individual performance expectations must be linked to or derived from the agency's mission, strategic goals, program/policy objectives, or annual performance plan.
Consultation	Individual performance expectations are developed with senior employee involvement and must be communicated at the beginning of the appraisal cycle.
Results	Individual expectations describe performance that is measurable, demonstrable, or observable, focusing on organizational outputs and outcomes, policy/program objectives, milestones, and so forth.
Balance	Individual performance expectations must include measures of results, employee and customer/stakeholder satisfaction, or competencies or behaviors that contribute to outstanding performance.
Assessments and guidelines	The agency head or a designee provides assessments of the performance of the agency overall, as well as each of its major program and functional areas, such as reports of agency's goals and other program performance measures and indicators, and evaluation guidelines based, in part, upon those assessments to senior employees and appropriate senior employee rating and reviewing officials. The guidance provided may not take the form of quantitative limitations on the number of ratings at any given rating level.
Oversight	The agency head or designee must certify that (1) the appraisal process makes meaningful distinctions based on relative performance; (2) results take into account, as appropriate, the agency's performance; and (3) pay adjustments and awards recognize individual/organizational performance.
Accountability	Senior employee ratings (as well as subordinate employees' performance expectations and ratings for those with supervisor responsibilities) appropriately reflect employees' performance expectations, relevant program performance measures, and other relevant factors.
Performance differentiation	Among other provisions, the agency must provide for at least one rating level above fully successful (must include an outstanding level of performance), and in the application of those ratings, must make meaningful distinctions among executives based on their relative performance.
Pay differentiation	The agency should be able to demonstrate that the largest pay adjustments, highest pay levels (basic and performance awards), or both are provided to its highest performers, and that overall the distribution of pay rates in the SES rate range and pay adjustments reflects meaningful distinctions among executives based on their relative performance.

Source: GAO.

# Appendix III: Comments from the Department of Defense



PERSONNEL AND  
READINESS

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
4000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-4000

NOV 14 2008

Mr. Robert N. Goldenkoff  
Director, Strategic Issues, U.S. Government Accountability Office  
U.S. Government Accountability Office,  
441 G Street, N.W.  
Washington, DC 20548

Dear Mr. Goldenkoff,

This is the Department of Defense (DoD) response to the GAO draft report, GAO-09-82, 'RESULTS-ORIENTED MANAGEMENT: Opportunities Exist for Refining the Oversight and Implementation of the Senior Executive Performance-Based Pay System,' dated October 29, 2008 (GAO Code 450628).

The Department appreciates the opportunity to respond to the audit. The analysis of selected agency practices and policies will be useful as the Department continues to refine its own performance management practices. The Department's comments are generally editorial in nature, however, they provide additional clarity to help inform the DoD effort. They are:


1. The title of the DoD official is, "Principal Director to the Deputy Under Secretary of Defense for Civilian Personnel Policy." You can shorten it to Principal Director.
2. Page 13: Suggest a slight rewrite of the last sentence in the DoD bullet. "According to the Principal Director to the Deputy Under Secretary of Defense for Civilian Personnel Policy, the DoD Components had the flexibility to use both the department wide organizational assessment and their own organizational assessments. Component organizational assessments were required to be linked to the department wide priorities and end of year assessment. Component organizational assessments can provide a level of specificity that enables a clearer connection or "line of sight" between individual executive performance and organizational performance."
3. Page 18. Suggest an additional sentence to the last paragraph before Table 2. "DoD also uses the Tier Structure to differentiate executive payouts (basic pay increases and bonuses) to recognize high level performance in some positions has more impact than comparable performance in others."



4. Page 21: Suggest a slight rewrite to sentence 5, second paragraph. "DoD is communicating the message that the new pay for performance management system recalibrates performance assessments as a way to help change the culture and make meaningful distinctions in performance. A fully successful or equivalent rating is a high bar standard as well as a valued and quality rating. Levels above this require extraordinary results." Part of this communication . . .

5. Page 29: Suggest a slight rewrite to sentence at the top of the page. ". . . The Principal Director to the Deputy Under Secretary of Defense for Civilian Personnel Policy said when pay increases are not possible given salary cap issues, bonuses are a tool for Components to reward their executives' performance for achieving results." Last sentence – A comment for your consideration. Tiers are the most common way for agencies to control salary costs. However, tiers can exacerbate pay compression issues.

If you have additional questions, please do not hesitate to contact me at 703-614-9487.

  
Patricia S. Bjadshaw  
Deputy Under Secretary of Defense  
(Civilian Personnel Policy)

# Appendix IV: Comments from the Office of Personnel Management



The Director

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

NOV 18 2008

The Honorable Gene L. Dodaro  
Acting Comptroller General  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Dodaro:

Thank you for the opportunity to provide comments in response to the U.S. Government Accountability Office (GAO) draft report entitled *Results-Oriented Management: Opportunities Exist for Refining the Oversight and Implementation of the Senior Executive Performance-Based Pay System* (GAO-09-82).

I appreciate GAO's recommendations for improving communications with the agencies concerning the executive appraisal system certification process. I agree that communication about system certification with the agencies is vitally important. The U.S. Office of Personnel Management has already taken a number of steps to improve our communications with the agencies, particularly through workshops, forums, Chief Human Capital Officer Council activities, and briefings for individual agencies as well as interagency groups. We have plans to conduct additional workshops on system certification using the Senior Executive Service Performance Appraisal Assessment Tool (SES-PAAT), which we recently introduced to improve the certification process. We look forward to working with agencies and the Office of Management and Budget to find ways to further improve the process.

We have one observation about the report's discussion regarding pay compression and agencies establishing pay tiers within the broad pay range. While we agree that pay compression is a problem, we are not comfortable with the identification of tiers as a means to address SES pay compression. Tiers are used by agencies for a purpose other than relieving pay compression—to recognize varying levels of responsibility and difficulty among SES positions, with the most demanding jobs falling in the top pay tier. This strategy results in a greater spread among the salaries of individual SES members, and ensures that SES members in the toughest jobs don't receive the same rate of basic pay as other Senior Executives. However, using pay tiers does not necessarily address the issue of pay compression. Instead, it results in salaries clustering around two or three points in the salary range rather than only at the top of the range. Also, the growing concern about compression is mostly fueled by the fact there is greater upward movement each January in the General Schedule (GS) than the Executive Schedule, resulting in a smaller and smaller difference each year between GS-15 and SES salaries. If anything, tiers would probably make the difference between the average SES and GS 15 salary even smaller.

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The Honorable Gene L. Dodaro

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Again, thank you for allowing me to comment on this report. I am providing specific technical corrections to the draft report and would ask for your consideration of these changes.

Sincerely,



Michael W. Hager  
Acting Director

Enclosure

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# Appendix V: GAO Contact and Staff Acknowledgments

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## GAO Contact

Robert N. Goldenkoff, (202) 512-6806, goldenkoffr@gao.gov

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## Staff Acknowledgments

In addition to the individual named above, Belva Martin, Assistant Director; Amber Edwards; Janice Latimer; Donna Miller; Meredith Moore; Mary Robison; Sabrina Streagle; and Greg Wilmoth made major contributions.



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