



UNDER SECRETARY OF DEFENSE
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WASHINGTON, D.C. 20301-4000

MAR 30 2010

PERSONNEL AND
READINESS

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
COMMANDERS OF THE COMBATANT COMMANDS
ASSISTANT SECRETARIES OF DEFENSE
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DEFENSE
ASSISTANTS TO THE SECRETARY OF DEFENSE
DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTOR, NET ASSESSMENT
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Calendar Year (CY) 2011 and 2012 Recertification of the Department of Defense (DoD) Executive Pay and Performance Management System

The purpose of this memorandum is to provide guidance for the recertification of the DoD Executive Pay and Performance Management System for Calendar Years 2011 and 2012 by the U.S. Office of Personnel Management (OPM). The Department's request must be submitted to OPM by June 30, 2010.

The Department's Executive Pay and Performance Management System is currently fully certified through 2010. Certification provides assurance that DoD can implement an effective, fair, transparent and credible pay for performance system. Certification also permits the Secretary of Defense to authorize and pay Executives above the rate for Level III of the Executive Schedule, up to the rate for Level II of the Executive Schedule, and to use the higher aggregate pay limit (the Vice President's Salary). Maintaining Full Certification for DoD's Executive Pay and Performance System is a top priority.

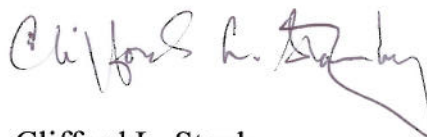
The OPM memorandum at Attachment 1, "Subject: Updated Guidance for Certification of Performance Appraisal Systems for Senior Employees," provides guidance for agencies seeking certification renewal. Agencies are required to use OPM's Senior Executive Service (SES) - Performance Appraisal Assessment Tool (SES-PAAT) designed to promote increased

efficiencies in the certification process. The OPM guidance was issued on February 4, 2010 and the Department used the PAAT during the certification request for the Senior Professional (SL/ST) Pay and Performance Management System for Calendar Years 2010 and 2011, which resulted in DoD receiving Full Certification from OPM. The key requirements for the PAAT are as follows:

- DoD audit of 25 percent of senior executive performance plans to ensure all OPM and DoD requirements are met
- OPM random audit of 20 senior executive performance plans to validate that OPM and DoD requirements are met
- Identification of measures used to assess organizational performance and communication of organizational performance to all executives
- Communication and evidence of how organizational performance is considered when determining ratings, pay adjustments and awards
- Success in making meaningful distinctions in performance, as evidenced by ratings and performance payouts
- Correlation of performance ratings and performance payouts that demonstrates the highest performers generally receive the highest levels of compensation
- Training of executives in the DoD performance management system
- Executive involvement in the development of performance plans
- Communication and transparency in performance management

In support of the Department's requirement to conduct an internal audit of at minimum 25 percent of its executives' performance plans, DoD contracted with OPM's Leadership and Talent Management Solutions (LTMS). During February through May, 327 of 1279 (26%) of the performance plans will be reviewed and assessed against the certification tool criteria, the Human Capital Assessment and Accountability Framework (HCAAF) standards, and requirements contained in SC920, the Department's Executive and Senior Professional Pay and Performance System. Attachment 2 provides additional important information about the certification requirements and deadline dates, such as the requirement that 100% of executives must be trained in the DoD Performance Management System. Also, the Department will continue to use the biweekly SES Component Advisory Group meetings to provide direction, advice and guidance.

I am confident that with your continued emphasis on performance management, we will be successful in this endeavor. Questions may be directed to Ms. Erin Moore at 703-696-1720 or at erin.moore@cpms.osd.mil.



Clifford L. Stanley

Attachments:
As stated



The Director

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

FEB 4 2010

MEMORANDUM FOR HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES AND
INSPECTORS GENERAL

FROM: JOHN BERRY
DIRECTOR *John Berry*

SUBJECT: Guidance for Certification of Performance Appraisal Systems for Senior
Employees

The U.S. Office of Personnel Management (OPM) has prepared the attached guidance for agencies seeking performance appraisal system certification by OPM, with concurrence from the Office of Management and Budget (OMB). The guidance addresses both members of the Senior Executive Service (SES), and employees in senior-level (SL) and scientific or professional (ST) positions. Agencies with a certified SES and/or SL/ST appraisal system may pay those members covered under the certified system(s) a salary up to the rate for level II of the Executive Schedule and apply a higher aggregate pay limitation to these senior employees.

The attached guidance is designed to assist you in obtaining system certification. We are pleased with the significant strides agencies already have made in the quality of senior employee performance management systems, and are confident the upcoming year will bring still further improvements. Today, agencies with certified appraisal systems are expected to align senior employee performance with organizational goals, hold senior employees accountable for setting clear expectations for employees and managing with evidence to improve results, and align the appraisal process with agency and program efforts to improve results.

Please be aware that legislative changes since our last guidance have further heightened the importance of the certification process. As outlined in the attached guidance, a new pay system has been established for SL/ST employees. In addition, Offices of Inspectors General (OIGs) are now expected to establish their own SES appraisal systems.

OPM is committed to providing agencies assistance to help ensure their systems meet certification requirements. My staff is available to provide additional information and to answer questions you might have regarding this guidance. For such assistance, your staff may contact Mr. Paul Thompson, Executive Resources and Employee Development at 202-606-1429, or paul.thompson@opm.gov. For questions about the system certification process, contact Ms. Karen Lebing, Executive Resources and Employee Development at 202-606-1633 or karen.lebing@opm.gov.

Attachment

cc: Chief Human Capital Officers
Performance Improvement Officers
Inspectors General
Human Resources Directors
Executive Resources Contacts

Guidance for Certification of Performance Appraisal Systems for Senior Employees

New Developments

We are pleased to announce important enhancements to the certification process. As a complement to the Senior Executive Service Performance Appraisal Assessment Tool (SES PAAT), OPM has designed a senior-level (SL) and scientific or professional (ST) PAAT for use in requesting certification of SL/ST performance appraisal systems. Additionally, OPM is no longer restricting use of the PAATs to agencies with full certification. All agencies are able to request either initial or continued certification using the appropriate PAAT. These enhancements should promote increased efficiencies in the certification process. Agencies requesting continued certification should submit the applicable PAAT to OPM 6 months prior to the expiration of their system's current certification. OPM will then review the PAAT submission, request OMB concurrence, and grant (if warranted) certification before the existing certification expires, thus avoiding a gap in certification. Agencies that are not certified may begin making their requests for certification of senior employee appraisal systems as soon as the required information for submission is available.

The Senior Professional Performance Act of 2008 includes a provision that affects certification of performance appraisal systems for senior employees. Section 3 of the Act changes the maximum term for performance appraisal certification under 5 U.S.C. 5307(d) from 2 years to not to exceed 24 months from the date of certification unless extended by OPM for up to 6 additional months. The Act also establishes a new pay system for SL/ST employees. OPM will issue regulations to provide new rules for setting and adjusting SL and ST rates of basic pay in the near future.

The Inspector General Reform Act of 2008 includes a provision that affects Office of Inspector General (OIG) SES appraisal system approval and certification. Section 14 of the Act requires that each OIG be considered as separate agency for provisions relating to the SES. As a result, OIGs are expected to establish their own SES appraisal systems and obtain OPM approval and certification of those systems separately from the agency SES system. We are happy to report that 10 OIGs have established their own SES appraisal systems. If an agencywide system certification currently includes OIG SES employees, they will continue to be covered by that certification until it expires.

Results-Oriented Focus

The nature and quality of both agency and senior employee goals will be considered when reviewing requests for certification. Specifically, OPM and OMB expect Chief Human Capital Officers and Performance Improvement Officers to work together to ensure each senior employee performance plan includes goals that are strongly linked to the agency's mission, as conveyed through its strategic and annual performance plans (including agency high priority performance goals, as relevant.) Certification may be withheld if senior employee goals are not sufficiently results-or outcome-oriented.

Performance Distinctions and Performance Pay

A key criterion affecting certification is the requirement for making meaningful distinctions in performance ratings, pay adjustments, rates of pay, and awards. Final decisions made pertaining to ratings, pay, and awards will be crucial for determining whether your agency receives certification of its system. Only agencies showing meaningful distinctions in performance and pay, as well as meeting the other stated criteria, will receive certification.

Please be sure that the requirement to make meaningful distinctions is communicated clearly to your agency's senior employees, rating and reviewing officials, Performance Review Boards (PRB), Performance Improvement Office, and other affected review boards. Senior employee pay rates, pay adjustments, and performance awards are expected to reflect distinctions related to performance. OPM and OMB expect to see a relationship between senior employees' ratings and their performance pay, and agencies must ensure that senior employee ratings are based primarily on assigned organizational goals achieved. A high level of organizational performance will be evident from the attainment of or substantial progress toward a few ambitious outcome-linked performance targets and steady progress on other key performance indicators. At the same time, it is also understood that if agencies adopt genuinely ambitious targets, they are unlikely to meet all of them and performance may even, on occasion, decline. When determining ratings and awards for individual senior employees, agencies would need to take these factors into consideration.

Additionally, the reviewing official should also be made aware that OPM and OMB expect agencies to make meaningful distinctions in awards for senior employees who are paid at the applicable maximum rate (imposed by an agency established tier system or the provision in 5 U.S.C. 5382 or 5376). Meaningful performance awards can be an effective means to reward high-performing senior employees whose salary is at or near the maximum rate.

Reporting

All agencies (regardless of whether they seek certification) are required to operate merit based systems for their senior employee cadre and submit to OPM data on SES and SL/ST employees' summary performance ratings, pay rates, pay adjustments, and awards. To reduce duplication of effort, you need only submit your annual report once, in response to the FY 2009 agency data call. Your response to that data call will also be used for certification, provided the submission is timely, complete, and accurate. As a reminder, OIGs will be reporting their SES ratings, pay, and awards data to OPM separately beginning with the 2009 data call.

2010 Requirements and Dates for the

Senior Executive Service Performance Appraisal Assessment Tool (SES-PAAT)

DoD Audit Details

- The Department must audit 25 percent of the 2010 executive performance plans and the Office of the Deputy Under Secretary of Defense (Civilian Personnel Policy) will conduct the audit. The Components have been provided with a list of executives whose performance plans will be reviewed as part of the audit. The list will be a random, diverse sampling of the executives and will be a proportionate mixture of both Career and Non-Career executives, various career fields, and positions throughout the Component.

Approximately 325 plans will be reviewed during the audit and each Component was assigned a specific number of plans to provide. The number of plans required by each Component is proportional to the number of executives within the agency. All plans were submitted electronically to the Deputy Under Secretary of Defense (Civilian Personnel Policy) (DUSD(CPP)) with all Personally Identifiable Information (PII), except for the names or signatures, redacted for OPM to review.

The number of plans and the dates the plans were submitted are as follows:

4th Estate:	128 plans due 2/24	Navy:	82 plans due 2/26
Army:	74 plans due 3/5	Air Force:	42 plans due 3/12

- Components are expected to provide staff during the designated week to participate in the audit. Additional guidance will be provided to your Component representatives. OPM requires that performance plans meet specific criteria. These criteria are summarized below and more fully described in Subchapter 920, "Executive and Senior Professional Pay and Performance System," (http://www.cpms.osd.mil/sespm/dod_policy.aspx).

OPM Audit Details

- During the certification process, OPM will conduct a random audit of an additional 20 DoD performance plans to be included with the submission of the PAAT. This random audit may or may not include any of the performance plans previously audited by the Department in the 25 percent audit during February through May 2010. OPM will

select these 20 plans to audit to ensure that there is a diverse selection of executives throughout the Components. Once the 20 plans are selected by OPM, the Department will have 2 weeks to provide the plans.

Document Expectations

- During March and April, each Component is also expected to provide DUSD(CPP) with copies of Component Specific guidance, such as Closeout Guidance for 2009, Guidelines to Performance Review Boards (PRB), etc. Each Component must also provide a memorandum certifying that 100% of its executives have been trained in the DoD Performance Management System along with a copy of the training materials. Agencies within 4th Estate will be required to furnish any agency-specific guidance issued. A listing of each executive, along with the date of training, is required.

All items should be provided electronically and in a hard copy, color-printed version if appropriate. For a naming convention of the electronic documents, please use: “Agency – Type of Materials – Date of Materials” (e.g. – “DLA – Closeout Guidance – 2009” or “Air Force – Memo Certifying 100% Trained – 2010”).

- Each Component must submit requirements for the PAAT to the DUSD(CPP) by May 1, 2010. The DUSD(CPP) will continue to advise Components of submission requirements and deadlines.

Senior Executive Service Performance Plans - Certification Requirements

Accountability

- Performance plans must have a Performance Requirement that holds executives accountable of the performance management of subordinates.
- The Performance Requirements must be evidenced in the executive’s plan and should be included in the leadership/supervision element by stating that employees are rigorously appraised against realistic, measurable standards.

Strategic Alignment

- Performance plans must have Performance Requirements that are aligned to Strategic Plans/Organizational Goals of the Component.
- The alignment must be clear and transparent in the performance plan by referencing the Strategic Goal/Organizational Priority for each Performance Requirement.

Balanced Measures

- Must have a Performance Requirement(s) that includes obtaining feedback/involvement of employee and customer perspectives in achieving results. The Performance Requirement must indicate how employee and customer communication will be verified.

Diversity Result

- Must have a Performance Requirement that holds executives accountable for achieving results in promoting diversity in the workforce and furthering equal employment opportunity in the workplace (DoD Requirement).

Measureable Results

- At least 60 percent of the overall plan must contain Results-Driven, SMART-Q Performance Requirements.
- Some Performance Requirements may be competency based, but all Performance Requirements must be written in the SMART-Q format: Specific (S), Measureable (M), Aligned (A), Timely (T), have a Quality (Q) measure.
- The measurable results criterion is evidenced when the results are measurable, observable, verifiable or apparent, and focus on tangible outputs, outcomes, milestones or other deliverables.

Contributing to Mission Accomplishment Performance Element

- Mission Accomplishment Performance Element must be weighted at least 60 percent. All Performance Requirements under Contributing to Mission Accomplishment must be results-driven. These Performance Requirements must contain specific goals that address outcomes and/or high-level outputs or services, and include quantity, quality, timeliness, and/or cost-effectiveness targets.

Consultation

- Plans must indicate that executives were consulted in the development of Performance Requirements as evidenced by the executive's signature on the SES Performance Plan Coversheet.

Training

- Executives must receive training on the requirements and operation of the performance management system.
- Evidence of training must be clearly documented and may be web-based, self-directed training.