

REPORT BY THE

113121

Comptroller General

OF THE UNITED STATES

First Look At Senior Executive Service Performance Awards

A major tenet of civil service reform is the system of performance awards (bonuses and ranks) to top Federal executives. As of July 1980, three agencies had awarded bonuses to the senior executives. GAO found that the bonuses and the procedures agencies followed complied with the law and OPM guidance. Although each agency encountered problems, it should not be inferred that the performance appraisal and award system is flawed.

The Congress and the administration need to consider a number of issues which may affect the success of the Senior Executive Service: the effect of pay compression and restrictions on awarding bonuses and the ability of bonuses to act as an incentive for improved performance.

The innovative features of the Senior Executive Service should not be curtailed or abandoned before they have been given a chance to work. GAO recommends that the Congress allow the bonus and rank provisions to take effect and allow the system to be thoroughly tested. The Office of Personnel Management should act to increase the credibility and objectivity of bonus decisions and step up its oversight of agency plans.



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The Honorable Jamie L. Whitten
Chairman, Committee on Appropriations
House of Representatives

The Honorable James M. Hanley
Chairman, Committee on Post Office
and Civil Service
House of Representatives

The Honorable Warren G. Magnuson
Chairman, Committee on Appropriations
United States Senate

The Honorable Abraham A. Ribicoff
Chairman, Committee on Governmental
Affairs
United States Senate

The Honorable Jim Sasser
Chairman, Subcommittee on Legislative
Branch
Committee on Appropriations
United States Senate

The Honorable Thomas F. Eagleton
Chairman, Subcommittee on Agriculture
and Related Agencies
Committee on Appropriations
United States Senate

The Senior Executive Service (SES), established by title IV of the Civil Service Reform Act of 1978 (Public Law 95-454), went into effect on July 13, 1979, and with it a system of performance awards (bonuses and ranks) to encourage excellence in performance among career appointees. SES serves as a significant attempt to inspire and motivate Federal executives to better performance and higher productivity. The awarding of bonuses and Meritorious and Distinguished Executive ranks with large cash stipends, two of the most innovative and important features of SES, are in a very early stage of implementation. On the other hand, as many executives have already observed, the performance appraisal process leading to these awards is already proving to be a major management tool that helps agencies to more sharply focus resources on accomplishing their overall missions and specific goals.

The first bonuses under this system were paid by the Small Business Administration (SBA) in April 1980 and to the National Aeronautics and Space Administration (NASA) and the Merit Systems Protection Board (MSPB) in May 1980. Concerned about the number and amounts paid by the first two agencies and about potential abuse of the system, the House of Representatives initiated action in June 1980 to limit payment of SES performance awards through the appropriations process. Disagreement between the Senate and House on limiting SES bonuses resulted in a compromise agreement by the conferees on the Fiscal Year 1980 Supplemental Appropriations Act that

"no more than 25 percent of the number of Senior Executive Service positions, or positions under similar personnel systems, in any agency may receive performance awards."

The conferees also directed our Office, in cooperation with the Office of Personnel Management (OPM), to thoroughly study SES bonus system payments to identify potential abuses of the system.

Because the actions of the Congress and the directive to our Office resulted primarily from the payment of bonuses by NASA and SBA, we reviewed the SES bonuses paid in these two agencies. We also reviewed the bonuses paid by MSPB. The National Capital Planning Commission (NCPC) awarded bonus payments but withdrew them at OPM's request. We also reviewed the circumstances in this case. According to OPM officials, these four agencies are the only ones which paid, or attempted to pay, bonuses as of July 7, 1980. On this date, OPM requested agencies to suspend further bonus payments pending issuance of additional guidance. OPM issued this guidance on July 21, 1980.

This letter summarizes the results of our study of SES bonus system payments. We are recommending that the Congress allow the SES bonus and rank provisions to take effect except that the percent limit be based on eligible career executives (see p. 10). Recommendations are also made to the Director, OPM (see p. 11). (See appendix for SES compensation matters, the processes used by the above agencies in awarding bonuses, and our comments on the processes.)

BONUS PAYMENTS AT NASA, SBA, MSPB, AND NCPC

We did not detect any abuse and believe that the responsible officials at these four agencies have acted in good faith and generally with reasonable logic in the administration of the SES performance appraisal and award system. Each of the processes and related awards were within the parameters of the Reform Act and OPM guidance in effect when the awards were made.

Research of private industry experience, however, has shown that an innovative concept that demands such an enormous and abrupt change in organizational behavior, as does SES, cannot be expected to operate optimally at its inception. Several years of experience with the system may be necessary to discover the changes that will be required to make it run well.

Although the agencies operated within guidelines, we did observe a few initial policies or procedures that need improvement. These matters are agency specific and should not be generalized or reflect negatively on the credibility of the system. These matters are

- the composition of NASA's Performance Review Board (PRB) and Senior Executive Committee in reviewing the performance appraisal and bonus recommendations of top agency officials and PRB members,

--the intention of SBA to pay a second round of bonuses again in the fall of 1980 for the remainder of fiscal year 1980 performance, and

--the senior executives at MSPB not establishing performance objectives until nearly three-quarters of the way through the performance period for which they were awarded bonuses.

NASA

NASA awarded bonuses within the parameters of the Reform Act and OPM guidance, which permitted bonus payments up to 50 percent of SES positions. Bonuses were paid to 240, or 56 percent, of the 427 incumbent career executives eligible to receive bonuses in May 1980; this amounted to 46 percent of 520 positions OPM allotted to NASA.

However, because (1) all of NASA's Executive Position Managers (EPMs)--major component organization directors--and PRB members received either bonuses or meritorious or distinguished rank nominations (rank nominees were ineligible for bonuses at NASA), (2) there was no representation of lower level SES members or non-NASA representatives on PRB, (3) the Senior Executive Committee, serving as the PRB for EPM bonus and performance rating recommendations, is chaired by the Deputy Administrator, who also rates the EPMs and Senior Executive Committee members, and (4) the percentage of executives receiving bonuses or rank nominations, as well as the greater dollar amounts of bonuses, were skewed toward the top of NASA's organizational hierarchy (see app., p. 15), NASA's performance award decisions lack the appearance of objectivity.

According to agency officials, EPMs gained their key positions by virtue of demonstrated performance and accomplishments; also PRB members were chosen for their long-standing reputation for integrity and competence. For the most part, awards were made to the better rated executives (see app., p. 14). Also, through a special commendation, OPM singled out NASA for its leadership in implementing the SES provisions of Civil Service Reform.

The skewing apparently occurred because of NASA's philosophy about the factors to be considered in evaluating individual performance. Although NASA considers an executive's performance rating the primary basis for an award, it believes the rating cannot be the sole basis for determining the value of an individual's performance. It believes consideration must also be given to the individual's job importance and complexity, the degree of risk and responsibility,

and the individual's specific or overall contributions to the agency. These factors are not necessarily reflected in the rating and are generally more prevalent at the highest positions in the organization. It believes that fully successful performance in more challenging and higher level positions may be more valuable to the organization than fully successful or better performance in less challenging or lower level positions, and thus more deserving of an award and in a greater amount. (See app., p. 10.)

SBA

SBA complied with the parameters of the Reform Act and OPM guidance, which permitted bonus payments up to 50 percent of SES positions. Bonuses were paid on April 16, 1980, to 15, or 48 percent, of the 31 incumbent career executives eligible to receive them. This amounted to 28 percent of 53 positions OPM allotted to SBA.

Although SBA's PRB recommended making bonus payments to 38 percent of its SES positions, the Administrator, after conferring with OPM officials, elected to reduce the number of awards to 28 percent and base the awards on a half year's salary. Also, SBA paid bonuses on a 6-month cycle and plans to again pay bonuses for second half fiscal year 1980 performance in the fall of 1980 with fiscal year 1981 money. It plans to then shift to an annual bonus cycle, paying bonuses in each October. This is not consistent with other agencies' practices and raises questions of equity to other SES members because, in effect, SBA would be paying a second round of bonuses for fiscal year 1980 performance. Most other Federal agencies will pay only one round of bonuses for fiscal year 1980 performance in the fall or early winter of 1980.

SBA will need to be very careful about the manner in which it pays bonuses in October to avoid perceived misuse of the 25-percent limit set by the Fiscal Year 1980 Supplemental Appropriations Act. This might lead SBA to consider making its bonus award decisions on the basis of previous recipients rather than to the most deserving performers. This would violate the intent of SES performance awards. Moreover, SBA has already exceeded the 20 percent limit other agencies will be expected to pay, based on July 21, 1980, OPM guidelines.

We also noted that, as with NASA, all eligible members of SBA's PRB were awarded bonuses and some were also nominated for ranks. Representation from outside SBA would have enhanced the objectivity of SBA's awards. (See app., p. 18.)

MSPB

MSPB awarded bonuses within the parameters of the Reform Act and OPM guidance, which permitted bonus payments up to 50 percent of SES positions. MSPB paid bonuses on May 8, 1980, to four, or 67 percent, of the six incumbent executives eligible to receive bonuses. This amounted to 50 percent of eight positions OPM had allotted.

Although the performance appraisal period for which bonuses were awarded was from March 1979 to March 1980, performance objectives for the executives were not formulated until November and December of 1979. Thus performance objectives were written nearly three-fourths of the way through the performance period. MSPB felt this was justified because it wished to recognize the exceptional efforts made by its executives in establishing the agency.

Nevertheless, we believe this procedure was improper because executives received awards for objectives written for performance that had already been substantially accomplished. Moreover, the objectives were for a period of time before SES went into effect. This is a one-time problem that has been resolved at MSPB by its requiring a review of performance objectives by PRB at the beginning of the appraisal period. (See app., p. 27.)

NCPC

NCPC's PRB reviewed the performance of its SES members on July 2, 1980, and recommended to the NCPC Chairman that two of its five career senior executives receive bonuses. However, according to an NCPC official, just before issuing the checks to the two individuals, the Chairman, through a letter from OPM, became aware of the congressional action to limit bonus payments to 25 percent of positions allotted. Consequently, the Chairman suspended payment of the bonus awards before they were issued and suspended them until further OPM guidance would become available. (See app., p. 33.)

REVISED OPM GUIDANCE

In response to the Fiscal Year 1980 Supplemental Appropriations Act which restricted bonus payments, OPM issued revised guidance on July 21, 1980, amplifying its earlier guidance to agencies in awarding bonuses. This guidance, of course, limits payments of bonuses to a maximum of 25 percent

of SES positions. It stated that agencies should generally limit bonuses to 20 percent of the eligible career employees and suggests that one or more members from outside the agency be included on PRBs. It also requires that agencies publish a schedule for awarding bonuses at least 14 days prior to the date awards will be paid.

EMERGING ISSUES THAT NEED TO BE RESOLVED

Although only 3 of the more than 70 agencies with SES executives have awarded bonuses, several interrelated issues affecting the viability of SES have already emerged and need to be recognized and resolved by the Congress and the administration. These issues are:

- Whether the pay compression situation makes it more difficult to equitably administer bonuses.
- Whether restrictions placed on the awarding of SES bonuses will diminish executive incentives.
- Whether bonuses will best serve as motivators by being available and paid to a large number of deserving senior executives, or only to an elite, relatively small percentage of outstanding executives.
- Whether factors beyond the rating instrument should be considered in bonus decisions.

These issues have emerged and become apparent not only in our review of bonuses paid to date but also in a number of other reviews we have underway. We believe that these issues must be resolved, or they may undermine the ability of SES to achieve its intended purposes. Some are of such impact that they have already had a serious effect on the credibility of the SES system, according to many senior executives, and have diminished many executives' willingness to view the system seriously and without cynicism. Not only have officials at several agencies expressed this viewpoint but also a large number of senior executives have expressed it in comments made in response to a randomly distributed attitude questionnaire on performance appraisal processes which we sent out in June 1980.

We are assessing these issues and have reported some of our concerns in previous reports. ^{1/} In these reports we highlighted problems that have resulted from actions to limit or deny annual pay adjustments for these executives. The reports also discuss the potential effects of prohibiting or limiting SES performance awards and ranks. We stated that SES's success depends on the granting of annual adjustments to these executives and also on the granting of performance awards within established guidelines. Without these incentives the success of SES could be undermined and the objectives of greater excellence and improved program management envisioned by the Reform Act could be seriously impaired.

Continuing executive pay compression and efforts to limit bonus and rank awards creates turbulence and declining morale among senior executives. We believe that the innovative features of SES should not be curtailed or abandoned before they have been given a chance to work.

It is these executives who are responsible for administering a \$600 billion budget and for managing the programs authorized by the Congress for the public. The potential returns we can receive from their improved performances are overwhelming. We recommended in these reports that the Congress improve the pay-setting process for Federal executives by

- allowing the annual adjustments for executives under Public Law 94-82 to take effect,
- discontinuing the practice of linking congressional and Executive Level II salaries, and
- allowing SES and performance and rank awards to take effect without further restrictions on payments.

We are currently working to identify SES implementation problems, as is OPM and several independent oversight groups. We expect to publish a report later this year on the processes that are being implemented to appraise the performance of senior executives, and we plan to examine every aspect of performance appraisal and its uses, including performance awards,

^{1/}"First Step Completed in Conversion to Senior Executive Service" (FPCD 80-54, July 11, 1980).

"Federal Executive Pay Compression Worsens" (FPCD-80-72, July 31, 1980).

throughout the next 4 years. We, as well as OPM, will be looking closely for abuses such as politicization and rotation of awards.

To facilitate the review of agency award practices, OPM is now establishing a computerized data collection system that will produce semiannual reports on bonuses, ranks, and incentive awards by agency, sex, minority group, location, rating, and pay plan. This system is expected to be operational early in fiscal year 1981. OPM has also established a compliance program of onsite visits to agencies to insure SES activities are performed in accordance with law and regulations.

CONCLUSIONS

The SES performance awards provided to executives at NASA, SBA, and MSPB were within the requirements of the Civil Service Reform Act, as well as OPM guidance. The three agencies which paid bonuses generally appear to be making sincere efforts to establish a workable SES performance appraisal and awards system, and we did not find evidence of abuse or intentional mismanagement of the system. Generally the better rated executives received the bonuses or were nominated for rank awards.

Each of the agencies experienced some procedural difficulties in administering these awards, which could be expected in the initial implementation. These procedures were agency specific and should not be perceived as reason to condemn the system. The following matters requiring improvement occurred at the three agencies paying bonuses.

- NASA's "special PRB" (Senior Executive Committee) for EPMS does not have the appearance of objectivity and its regular PRB has no representation from lower SES levels;
- SBA intends to pay a second round of bonuses for fiscal year 1980 performances; and
- MSPB's executives were paid bonuses based on performance criteria established near the end of the performance rating period.

We are concerned that certain interrelated issues which have emerged may undermine the viability of the SES system and performance awards concept. The questions they raise are:

- Will it be more difficult to equitably administer SES performance awards with the existing pay compression?
- Will restrictions on SES bonuses diminish executive incentive?
- Should bonuses be paid to a small percentage or a large percentage of career SES members?
- Should additional criteria beyond the rating instrument be used to determine which executives should receive the allowable bonuses?

OPM's guidance, issued July 21, 1980, is a responsive reaction to the desires of the Congress. OPM will need to undertake a strong monitoring and compliance effort to help insure the credibility of agency bonus programs and that these programs are in compliance with law, regulation, and guidance. This effort is also needed to allow OPM to be more responsive to the concerns of the Congress and other parties.

Monitoring by OPM will be enhanced by its (1) computerized data collection system being developed to capture agency performance award information and (2) guidance requiring that agencies publish a schedule for awarding bonuses at least 14 days prior to the date on which awards will be paid. OPM will also need to evaluate the adequacy of the bonus system as it evolves in the Federal sector and make recommendations for legislative change and adjustments in regulations and agency guidance as necessary.

We regret the Congress felt compelled to place further restrictions on bonuses but believe the decision to permit the full range of bonus payments (20 percent of base pay) a wise one, thus allowing the system to develop and OPM and agencies to explore and recommend better methods.

RECOMMENDATIONS TO THE CONGRESS

We recommend that the Congress allow the SES bonus and rank provisions to take effect with one exception. The one exception is that, for equity purposes among agencies, the Congress should change the basis for the percent limit on number of bonuses paid from percent of positions to percent of eligible career executives.

RECOMMENDATIONS TO THE DIRECTOR, OPM

To add credibility and additional objectivity to bonus decisions, we recommend that the Director, OPM, (1) direct Federal agencies include lower level SES executives, as well as impartial outside members, to participate in PRB decisions and also include outside members as participants on special PRBs (such as NASA's Senior Executive Committee) and (2) work with SBA to determine an equitable plan for paying bonuses for the remaining fiscal year 1980 performance.

We recommend also that OPM take a strong role in monitoring agency bonus programs and review agency bonus award plans and policies prior to awards for the first few years, or until such time OPM is assured that agencies are routinely following prudent procedures that are within the intent of the Reform Act. After it is assured agencies are using prudent procedures, OPM should continue to monitor awards on a postaward basis through its data collection system and compliance visits to agencies.

We recommend further that the Director, with the help of agencies, study the issues that may affect SES success, such as those identified in this letter; evaluate the adequacy of SES bonus systems; and, as necessary, make recommendations for legislative change. These recommendations should include methods, amounts, and numbers of performance awards that will have the maximum effect in carrying out the intent of the Reform Act.

AGENCY COMMENTS

OPM and the respective agencies were provided a draft of this report. We discussed the draft with the responsible officials in these agencies who generally agreed with our findings and recommendations.



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BACKGROUNDSES COMPENSATION

The pay-setting process as envisioned by the Reform Act and the introduction of performance awards (bonuses and Meritorious and Distinguished Executive ranks) are among the most innovative and appealing features of SES.

SES pay-setting process

The pay-setting process for SES is linked to the Executive Schedule and to the General Schedule (GS). The lowest rate of basic pay for SES positions under the Reform Act cannot be less than the minimum rate paid to GS-16, step 1. The highest rate of basic pay cannot exceed that for Executive Level IV. These "floor" and "ceiling" amounts are determined independently--the former according to the GS comparability process (subject to the Executive Level V limitations or other congressionally imposed limitations on GS pay) and the latter by the Executive Schedule pay-setting process, also subject to congressionally imposed limitations.

Within these floor and ceiling limits, the Reform Act requires at least five rates of basic pay which are initially established and thereafter adjusted by the President. In March 1979, the President decided on six SES salary rates.

The Legislative Branch Appropriation Act of 1979 (Public Law 95-391) restricted the salary Federal employees could receive during fiscal year 1979. It limited the rates payable for Executive Level V and GS positions to \$47,500 and to \$50,000 for Executive Level IV, even though their established rates may have been higher. Therefore, for SES executives converting to SES from Executive Level IV positions, salaries actually paid could not exceed \$50,000. For those converting from other positions, salaries paid could not exceed \$47,500. It was anticipated that the pay of SES members would be adjusted after congressional action on the fiscal year 1980 pay raise.

Although the fiscal year 1979 salary restrictions expired, Public Law 96-86, dated October 12, 1979, stipulated that fiscal year 1980 appropriations may not be used to pay increases of more than 5.5 percent in rates of basic pay

for offices and positions subject to the fiscal year 1979 restrictions. This law has further restricted SES pay.

Executive Order 12165 of October 9, 1979, established new pay rates for SES reflecting a 7-percent pay increase. However, these new rates could not be put into effect because of the fiscal year 1980 fund restrictions. Therefore, a substantial difference exists between the rates established by the President and rates payable as established by the Office of Management and Budget.

<u>SES pay level</u>	<u>Established rates</u>	<u>Payable rates</u>
ES-1	\$47,889	\$47,889.00
ES-2	49,499	49,499.00
ES-3	51,164	50,112.50
ES-4	52,884	50,112.50
ES-5	54,662	50,112.50
ES-6	56,500	a/ 50,112.50

a/\$52,750 for persons in offices or positions at Level IV of the Executive Schedule before conversion to SES.

The Congress is considering placing further restrictions on SES pay. One proposal still under consideration would prohibit the October 1980 pay adjustment.

Two major factors presently compress the salaries of SES members: (1) linking congressional and Executive Schedule salaries and (2) limiting the annual pay adjustments of executives which have been imposed by law. Consequently, about 90 percent of SES executives receive the same pay. Inadequate salary levels, irregular adjustments, and distorted pay relationships for top Federal executives have been areas of longstanding concern.

The present executive pay-setting system and the effect of the executive pay system on executives, managers, and agency operations have been discussed in our previous reports. One of these was "First Step Completed in Conversion to Senior Executive Service" (FPCD-80-54, July 11, 1980). The report makes the following recommendation:

"To improve the pay-setting process for Federal executives, including those in SES, we recommend that the Congress (1) allow the annual adjustments for executives under Public Law 94-82 to

take effect and (2) discontinue the practice of linking congressional and Executive Level II salaries."

SES performance awards

To encourage and reward excellence, career SES members with fully successful performance can receive lump-sum performance awards (bonuses) of up to 20 percent of their basic salaries. The Reform Act allows the number of senior executives receiving awards to be up to 50 percent of the number of SES positions in an agency.

In addition, career executives can receive the rank of Meritorious Executive and the rank of Distinguished Executive for sustained accomplishment and sustained extraordinary accomplishment. These ranks carry one-time, lump-sum payments of \$10,000 and \$20,000, respectively. The number of executives receiving them each year is limited to 5 percent and 1 percent of SES executives, respectively. Agency nominations for Meritorious and Distinguished Executive ranks were to be sent to OPM by April 15, 1980. Total dollar compensation (basic pay plus rank and performance awards) for SES executives cannot, in any one year, exceed the rate payable for Executive Level I (presently \$69,630). Noncareer SES appointees--who can comprise up to 10 percent of SES--are not eligible for performance pay or executive ranks.

Agencies are responsible for establishing programs for paying bonuses. Under OPM guidance, the earliest date agencies could have paid bonuses was February 1980. This date was 120 days after October 1979, when agencies were to have had their performance appraisal systems ready for use. First performance ratings must occur for SES members no later than October 1980. OPM expects initial bonus payments, in most cases, will not be payable until late 1980.

By June 1980 three agencies had completed their initial performance appraisals of SES members and had made bonus determinations as follows:

<u>Agency</u>	<u>SES allocated positions</u>	<u>Number of career executives</u>	<u>Number of bonuses</u>	<u>Amount</u>
NASA	520	427	240	\$1,372,027
SBA	53	31	15	59,246
MSPB	8	6	4	35,500

A fourth agency, NCPC, awarded bonuses to two out of five senior executives on July 3, 1980. However, due to congressional action on bonus limitations the NCPC Chairman rescinded his approval of the bonuses pending further guidance from OPM. (See p. 33.)

Congressional actions

During this period, the Congress was also considering placing further restrictions on the aggregate amount of pay, bonuses, and ranks allowed SES executives. A proposal in the House of Representatives would have limited SES executives to \$60,660 during fiscal year 1980. A later proposal would have limited SES executives to \$52,750, which would, essentially, have eliminated meaningful bonus and rank payments.

On July 2, 1980, the Congress included language in the Fiscal Year 1980 Supplemental Appropriations Act which allows aggregate pay for SES executives up to the level authorized by the Reform Act but limits bonus payments to 25 percent, rather than 50 percent, of SES positions. In addition, we were directed to thoroughly study, in cooperation with OPM, bonus system payments and to report the findings to the authorizing and appropriations committees.

On July 21, 1980, the House passed a proposal for fiscal year 1981 bonuses retaining the same bonus restrictions as agreed to for fiscal year 1980.

OPM guidance

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

OPM told agencies that they should, as a matter of good management, guard against any tendency toward awarding maximum possible bonus amounts (20 percent of base SES pay) to larger segments of the executive population than can be justified on the basis of exceptional performance. OPM recommended that generally no bonus payment of less than 3 percent should be made. It was believed that awards below 3 percent would tend to not motivate executives. OPM said agencies were not required to award the maximum number of SES bonuses and should carefully avoid the automatic use of 50 percent

of total SES in making awards. Agencies were required to include an adequate sum in budget requests to cover SES performance awards and stipends for SES ranks.

On July 21, 1980, OPM issued guidance amplifying its earlier guidance to agencies in awarding SES bonuses. This guidance was issued to reflect the new statutory limitation to 25 percent of SES positions in the agency and to respond to strong congressional concern that the 25 percent be viewed as a ceiling, not the norm.

This guidance, of course, limits payment of bonuses to a maximum of 25 percent of SES positions. It also states that agencies should generally limit bonuses to 20 percent of the eligible career employees. Agencies must consult with the Director, OPM, if an agency head believes a higher proportion is essential. Also agencies with 100 or more senior executives should not exceed the following limitations in deciding the amount of bonuses to be paid.

1. Bonuses of 20 percent should be limited to no more than 5 percent of those receiving bonuses.
2. Bonuses of 17 to 20 percent should, in total, be limited to no more than 10 percent of those receiving bonuses.
3. Bonuses of 12 to 20 percent should, in total, be limited to no more than 25 percent of those receiving bonuses.

The guidance also suggests that, although career executives are eligible for both bonus and rank awards, agencies should generally avoid giving multiple awards to an individual SES member in any one year.

The October 1979 guidance from OPM noted that the 20-percent limitation on bonus amounts is calculated on the basic SES pay rate established by the President, not on payable salary. However, an OPM memorandum to agency personnel directors in May 1980 required the SES total compensation be based on current payable salary rather than the higher established salary.

Our report on SES conversion (FPCD-80-54, July 11, 1980) points out a systemic potential for inequity in the bonus system. The Reform Act stipulates that performance awards may be granted to 50 percent of the total SES positions in

an agency. Only career executives are eligible for bonuses. Therefore, career executives in agencies with a high percentage of noncareer executives have a significantly greater opportunity to receive bonuses.

Although the Fiscal Year 1980 Supplemental Appropriations Act limits bonus payments to 25 percent rather than 50 percent of SES positions, this potential for inequity among agencies was not addressed. For example, a few small agencies with a high proportion of noncareer executives would still be able to give bonuses to half or nearly half of their career executives. However, this potential for inequity may be temporarily resolved because the guidance issued by OPM limits bonuses to 20 percent of the eligible career executives unless specific approval from OPM is obtained.

SES rank awards

Agency heads nominated 86 executives for the Distinguished Executive rank and 350 for the Meritorious Executive rank. Panels of executives from within and outside of the Government were established to review the merits of the executives nominated for the rank awards. At the time our review was completed, the panels' conclusions and suggestions for rank awards had been furnished to the Director, OPM, who subsequently forwarded his recommendations to the President.

Incentive awards for SES members

OPM initially suggested that excellent performance by noncareer SES executives could be recognized through the incentive awards program. At least one agency we visited was considering rewarding its noncareer executives in this way. However, OPM issued new guidance on July 24, 1980, which said agencies must not use incentive awards to circumvent either statutory language or OPM's guidance of July 21, 1980, concerning the number and distribution of awards. Thus agencies cannot use incentive awards to reward sustained superior performances by SES members. Agencies, however, may continue to use incentive awards to recognize a specific one-time accomplishment, a suggestion, an invention, or a specific achievement made by a senior executive.

EXECUTIVE RESOURCES BOARDS AND PRBS

The Reform Act requires each agency to establish one or more Executive Resources Boards (ERBs) and PRBs. ERBs conduct the merit staffing process for career appointees. Also OPM

has recommended that agencies delegate much more responsibility to their ERBs for SES management, including executive personnel planning, staffing and development, position management, pay management, performance appraisals, performance awards, and evaluation of executive personnel management.

The act requires each agency to develop, in accordance with OPM standards, one or more SES performance appraisal systems designed to

- permit accurate evaluation of performance based on criteria which specify a position's critical elements;
- provide for systematic appraisals of performance;
- encourage excellence in performance; and
- provide a basis for determining eligibility for retention and for performance awards.

Each agency must establish one or more PRBs responsible for making recommendations on performance ratings and awards to the agency's appointing authority and its ERB. The law specifically provides that PRB make recommendations on performance ratings and performance awards. The law also stipulates that membership must include a majority of SES career appointees where a career executive evaluation is being reviewed.

OPM also provided agencies with guidance on PRB membership. This guidance included the following:

- Each PRB in an agency should have three or more members appointed by the head of the agency or by another official or group, such as ERB, acting on behalf of the head of the agency.
- The supervisory official who made the initial appraisal of an executive should not be a member of PRB considering the appraisal of that executive.
- Members of a PRB can include all types of Federal executives from within and outside the agency. Generally, PRB members should be in positions equivalent to SES positions. Members can include military officers and noncareer officials.

- Except where it is impossible because of the level of the position within the agency, the executive must have the opportunity to have the appraisal reviewed by a higher level executive within the agency.
- Federal members of PRB should (1) have current fully successful performance ratings, or the equivalents of this rating, in other rating systems, (2) have consistently applied agency appraisal systems effectively in their own organizations, (3) possess a thorough knowledge and understanding of the agency appraisal system gained through experience and/or training, and (4) not be a direct subordinate of the executive whose performance is under review.

According to OPM guidance on bonuses issued on July 21, 1980, agencies may wish to include one or more members from another Federal agency on their PRBs to further add to the objectivity of the review process.

OPM guidance also suggests that PRBs

- review and evaluate the initial appraisal and rating by the senior executive's supervisors, the senior executive's written response, if any, and the written review of the initial appraisal by a higher-level executive, if such a review was made;
- can have a continuing monitoring function designed to improve and strengthen the entire performance appraisal system;
- should make a written recommendation concerning an executive's appraisal and rating; and
- are also responsible for making recommendations to the appointing authority concerning individual awards to be granted to fully successful career appointees.

SCOPE OF REVIEW

Through discussions with agency officials and examination of supporting records, we reviewed the performance rating and bonus and award decision processes at the three agencies that had made bonus decisions at the time of our study. We also interviewed NASA's, SBA's, and MSPB's PRB chairmen and reviewed records on PRB deliberations.

We also obtained information on a fourth agency, NCPC, regarding its performance awards and bonus decisions.

We examined title IV of the Reform Act and reviewed recent congressional actions on limits established for senior executive bonuses. We also held discussions with OPM officials and reviewed their guidance to ascertain and assess OPM's role in the awards made by the agencies.

NASA

NASA paid performance awards on May 8, 1980, to 240 or 56 percent, of the 427 career senior executives eligible under the provisions of title IV of the Civil Service Reform Act (Public Law 95-454). This amounted to 46 percent of NASA's 520 SES positions (not all were filled) allocated to NASA by OPM and was within the parameters of the Reform Act and OPM guidance in effect at the time.

SES PHILOSOPHY AND POLICIES

In designing the performance appraisal and award system, NASA officials surveyed a number of private corporations to seek the experience of industry. Consequently, NASA adopted the philosophy, based on lessons learned by industry, that in order for bonuses to be an effective motivator, they should be paid to as many executives as possible. Recognizing the restriction imposed on this philosophy by the 50 percent limitation, and being deeply concerned about the negative effect the 50 percent limitation would have on executives not getting bonuses, NASA, nevertheless, decided to award bonuses to as many deserving executives as possible under the Reform Act provisions and OPM guidelines. On the basis of conversations with cognizant OPM officials, NASA believed this procedure would be acceptable. Wanting the performance appraisals to reflect true performance, while keeping within the bonus qualifying provisions of the Reform Act, NASA decided that executives receiving fully successful ratings (defined as outstanding, highly successful, and successful at NASA) would be eligible for awards.

NASA's management system relies heavily on the delegation of decisionmaking to EPMS, defined as directors of major divisions and field centers (for example, the Johnson Space Center in Houston). Therefore, in keeping with this philosophy, and in trying to keep the basic decisions about performance ratings and awards close to the supervisory level most familiar with an individual's performance, NASA delegated the initial decision for ratings and bonuses to EPMS. Each EPM was given a pool of award money and basic guidelines under which to rate performance and distribute bonuses. Performance appraisal and award decisions, with justifications, were then to be submitted to PRB for review and ratification. The PRB role was to basically endorse EPM recommendations, unless the review showed a strong reason to question EPM's judgment.

NASA made a decision that no SES member receiving a rank nomination this year could also receive a performance award. Additionally, it decided that incentive awards would not be used as substitutes for bonuses. The reason given was that to do so would compromise the credibility of the bonus system. Also, in guidance to EPMs, NASA specifically states that rotation of awards from year to year ("taking turns") would not be tolerated and awards given would be tracked to prevent such an abuse.

In deciding who should receive bonuses and in what amounts, NASA officials explained that performance ratings, while providing a primary basis for determining eligibility, should not be the sole basis for the decision. NASA has adopted the philosophy that, regardless how well a performance appraisal system is designed, it will not be a perfect system for distinguishing performances among individuals. To do so would require ratees and supervisors to perfectly predict accurate indicators of performance (standards) at the beginning of a cycle; to accurately assess performance against those criteria; to perfectly balance standards among various positions of responsibility, complexity, and difficulty; and to make uniform comparisons of performance among vastly different jobs. Therefore, NASA officials maintain that, at the end of an appraisal period, supervisors must be delegated authority to use judgment to consider other factors, such as responsibility, risk, complexity, environment, and overall contribution to the agency in deciding on performance ratings and awards. Furthermore, NASA officials observed that EPMs vary in the standards they use to judge their subordinates performance and that it would be extremely difficult to compare one EPM's ratings with those of another.

Hence, NASA's ratings and award distribution vary considerably from one EPM's organization to another. Some senior executives receiving outstanding ratings in one EPM's organization did not receive bonuses, while individuals receiving successful ratings in another EPM's organization did. In addition, four EPMs recommended bonuses for individuals within their organization who had lower performance ratings than other individuals in their organization who were not recommended for bonuses. Finally, there were several instances in which individuals in lower pay levels received higher bonuses than other individuals in the same EPM organization who had the same rating but a higher pay level.

PROCEDURES FOR MAY 1980 AWARDS

NASA's first performance appraisal rating and award period covered the period of October 1, 1979, to March 31, 1980, after which an annual cycle was implemented from April 1 to March 31. Performance plans (objectives and standards) were put into effect on October 1, 1979, and reviewed locally within each EPM center at the EPM's discretion; that is, some EPMS reviewed them personally, some were reviewed by local committees, and some reviewed only by the next higher supervisory level. PRB did not review the appraisal plans until after ratings and award recommendations were made by the EPMS in May 1980.

Bonus allotments by total dollar amounts and number of bonus recommendations allowed were given by PRB to EPMS in March 1980, along with guidance for decisions. Each EPM reviewed performance appraisals for the individual's organization in April 1980 and submitted recommendations to PRB along with narrative explanations of its decisions. Specific bonus decisions were left to each EPM's discretion, but instructions were given by PRB to recommend bonuses in 5, 10, 15, and 20 percent amounts.

PRB, consisting of eight EPMS and deputy center directors, met on May 2, 1980. (One board member was absent due to work conflict.) Each EPM organization's performance appraisals, ratings, and bonus recommendations were reviewed by at least two PRB members, neither of which could be from the organization being reviewed. Additionally, the PRB Chairman (NASA's Associate Deputy Administrator) personally reviewed all summary ratings, narratives, and a large sample of performance appraisals from each EPM organization in detail.

All executives who requested a higher level review were contacted by PRB. According to the PRB Chairman, only one appraisal had not been resolved locally to the executive's satisfaction. In this case, PRB interviewed the individual and his supervisor and sustained the supervisor's recommendation. The individual, still not satisfied, was allowed to present his case to the Administrator, NASA, who also sustained the recommendation.

PRB reviewed EPMS' recommendations and accepted them as submitted. In doing so, PRB made certain that decisions were within its guidelines and looked for anomalies in judgment. PRB members whose ratings and award recommendations were reviewed by PRB were excused from the meeting while their recommendations were being discussed.

EPMs' performance appraisals and bonus recommendations were not reviewed by PRB but were reviewed by the Senior Executive Committee consisting of the Deputy Administrator and the ERB and PRB Chairmen (both EPMs). However, EPMs, including the ERB and PRB Chairmen, were appraised, rated, and recommended for bonuses by the Deputy Administrator. However, as in PRB, each member was excused while his own recommendations were being discussed.

After bonuses had been approved by NASA's Administrator and paid, PRB met again during May 19 to 21, 1980, to review how the appraisal system functioned during the first cycle. As a result, several EPMs were given instructions for making ratings more consistent and several improvements in procedures were recommended to all EPMs.

Overpayment of bonuses

On the basis of numerous discussions with OPM officials and on OPM guidance in effect, NASA determined bonus amounts on established rates of pay rather than payable rates. Subsequent to NASA's awards, OPM changed its guidelines to require that bonuses be paid based on payable salaries (\$50,112.50 limit). This resulted in 20 senior executives having been paid bonuses in excesses of 20 percent of their payable salary, amounting to overpayments of \$554 to \$1,278. Consequently, NASA is requiring affected executives to repay these overpayments.

Pay level adjustments

NASA made no pay level adjustments as a direct result of the performance rating and bonus process. SES pay level adjustments at NASA are made through separate personnel processes from the bonus process and are not considered by PRB. Adjustments are made through approval of EPM recommendations by the Administrator and do not necessarily occur at the end of a performance appraisal period.

NASA BONUS AND RANK STATISTICS BY RATING

<u>Rating</u>	<u>Executives rated</u>		<u>Awarded bonuses</u>		<u>Average amount of bonuses</u>	<u>Total amount of bonuses awarded</u>	<u>Nominated for rank awards</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent of rated</u>			<u>Number</u>	<u>Percent of rated</u>
Outstanding	139	34	99	71	\$6,631	\$ 656,463	19	14
Highly successful	216	52	129	60	5,166	666,439	12	6
Successful	59	14	12	20	4,094	49,125	1	-
Minimally satisfactory	1	-	-	-	-	-	-	-
Unsatisfactory	-	-	-	-	-	-	-	-
Total	<u>a/ 415</u>	<u>100</u>	<u>240</u>	<u>b/ 58</u>	<u>c/ \$5,717</u>	<u>\$1,372,027</u>	<u>32</u>	<u>d/ 8</u>

a/12 retired executives who were eligible for bonuses were not rated.

b/240 divided by 415.

c/\$1,372,027 divided by 240 (46 percent of the 520 positions).

d/32 divided by 415.

NASA BONUS AND RANK STATISTICS BY SES PAY LEVEL

SES pay level	Executives eligible		Awarded bonuses		Average amount of bonuses	Percent of average bonus to payable salary	Total amount of bonuses awarded	Nomination for rank awards	
	Number	Percent (note a)	Number	Percent of eligibles				Number	Percent of eligibles
ES-6	30	7	12	40	\$ 9,898	19.8	\$ 118,650	18	60
ES-5	98	23	79	81	7,023	14.2	554,819	11	11
ES-4	216	51	115	53	4,714	9.5	542,061	3	1
ES-3	43	10	22	51	4,651	9.0	102,328	-	-
ES-2	15	4	7	47	4,596	9.3	32,174	-	-
ES-1	12	3	4	33	2,993	6.3	11,972	-	-
Retired (note b)	12	3	-	-	-	0.0	-	-	-
EL-V (note c)	1	-	1	100	10,023	20.0	10,023	-	-
Total	427	100	240	d/ 56	e/ \$ 5,717		\$1,372,027	32	f/ 8

a/Does not add to 100 percent due to rounding.

b/12 retired senior executives were eligible for bonuses.

c/Individual was converted to Executive Level V after joining SES but retained SES rights under 5 U.S.C. 3392(c).

d/240 divided by 427 (46 percent of 520 positions).

e/\$1,372,027 divided by 240.

f/32 divided by 427.

Note: According to NASA officials, SES pay levels generally correspond to the individual's position in the organizational hierarchy. For example, ES-5 and ES-6 levels tend to be assigned to EPMS and deputy EPMS, while ES-4 level and below generally correspond to individuals at lower levels.

NASA BONUS AND RANK NOMINATIONS FOR PRB MEMBERS

<u>SES pay level</u>	<u>Rating</u>	<u>Rank nomination</u>	<u>Bonus amount</u>	<u>Percent of salary (note a)</u>
ES-6	Outstanding	-	\$11,300	20.0
ES-6	Outstanding	Meritorious	-	-
ES-6	Outstanding	Meritorious	-	-
ES-5	Outstanding	-	10,932	20.0
ES-6	Highly successful	-	11,300	20.0
ES-6	Highly successful	Meritorious	-	-
ES-6	Highly successful	Meritorious	-	-
ES-5	Highly successful	-	8,199	15.0
ES-5	Successful	-	2,733	5.0

a/Based on scheduled salary.

BONUS AND RANK NOMINATIONS FOR EPMsAND OTHERS REPORTING TO DEPUTY ADMINISTRATOR

<u>SES pay level</u>	<u>Rating</u>	<u>Rank nomination</u>	<u>Bonus amount</u>	<u>Percent of salary (note a)</u>
ES-6	Outstanding	Distinguished	\$ -	-
ES-6	Outstanding	Distinguished	-	-
ES-6	Outstanding	Distinguished	-	-
ES-6	Outstanding	Meritorious	-	-
ES-6	Outstanding	None	11,300	20.0
ES-6	Outstanding	Distinguished	-	-
ES-6	Outstanding	Distinguished	-	-
ES-6	Outstanding	None	8,475	15.0
ES-5	Outstanding	Distinguished	-	-
ES-6	Highly successful	None	11,300	20.0
ES-6	Highly successful	Meritorious	-	-
ES-6	Highly successful	Meritorious	-	-
ES-6	Highly successful	Meritorious	-	-
ES-6	Highly successful	None	11,300	20.0
ES-6	Highly successful	None	11,300	20.0
ES-6	Highly successful	Meritorious	-	-
ES-6	Highly successful	Meritorious	-	-
ES-6	Highly successful	Meritorious	-	-
ES-6	Highly successful	Meritorious	-	-
ES-6	Highly successful	Meritorious	-	-
ES-6	Highly successful	Meritorious	-	-
ES-5	Highly successful	None	8,199	15.0
ES-4	Highly successful	None	5,288	10.0
ES-4	Highly successful	None	7,933	15.0
ES-2	Highly successful	None	4,950	10.0
ES-6	Successful	Meritorious	-	-
ES-6	Successful	None	8,475	15.0
ES-6	Successful	None	5,650	10.0

a/Based on scheduled salary.

SBA

On April 16, 1980, SBA awarded bonuses, ranging up to \$5,300, to 15 of 31, or 48 percent, of the eligible career senior executives. While the Reform Act allows awards to be given to up to 50 percent of the SES positions within an agency, SBA gave awards amounting to 28 percent of its 53 allotted positions. The total amount paid in bonuses for this evaluation period was \$59,246, although OPM guidelines could have permitted the agency to pay out some \$270,000.

SBA's policies or procedures in awarding bonuses were in accordance with the Civil Service Reform Act and OPM guidance in effect at the time. Additionally, the Administrator, SBA, said that he wanted to reward those people who have excelled but that he was very much concerned about Government expenses in these inflationary times.

PERFORMANCE APPRIASAL AND
AWARD SYSTEM IMPLEMENTATION

In May 1979 SBA began the design of its SES system. OPM approved 53 positions to be included in SBA's SES, and on July 13, 1979, all SBA executives elected to convert to SES. The Administrator established a single performance appraisal system under which all senior executives are evaluated. SBA executives, in conjunction with their supervisors, established performance objectives in October 1979 for the performance year ending September 30, 1980. Executives were informed that the first appraisal period would end on February 29, 1980, and that they would receive their first performance rating in March 1980. In SBA's system each executive is rated using one of four adjective ratings (highly successful, fully successful, minimally satisfactory, and unsatisfactory). SBA has one PRB consisting of nine members, including the chairperson. There are seven voting members and two advisory positions on PRB. At least four of the seven voting members are required to be career senior executives, and PRB is required to have at least one regional representative. All PRB members are SBA executives.

PRB philosophy, policy and procedures

SBA's PRB has several responsibilities which are key to the effective functioning of the SES system: (1) reviewing the individual appraisals of all SES members (career and non-career) for accuracy and consistency in the application of ratings, (2) recommending career executives for bonus awards and noncareer executives for incentive awards, (3) recommending meritorious and distinguished rank nominations, and (4) recommending supervisory base salary adjustments.

Additionally, the Deputy Administrator gave guidance to PRB that it should

- be mindful that SBA was not fully successful in all its endeavors; therefore, not all of its executives were fully successful and
- judge career and noncareer executives as part of the same management team but recognize differences between the two groups, such as the expectation that noncareer executives be held to higher risk-taking standards.

Rating process

PRB made its review from March 31 through April 4, 1980. The first step was to determine the appropriate level of rating for each senior executive. All appraisals were reviewed individually by PRB members to determine the appropriateness of the performance rating recommended by the supervisor. All decisions were reached through majority voting; no PRB member or adviser was present when his/her appraisal was discussed. Six appraisals were returned to supervisors where PRB felt that they had not been adequately completed. Also meetings were held with the executives' supervisors to discuss any rating for which PRB felt an adjustment was warranted.

As shown in the following table, of the 45 executives' appraisals PRB reviewed, the SBA supervisors initially rated 12 executives as highly successful, 30 executives fully successful, and 3 executives minimally satisfactory. After PRB reviewed the decisions three ratings were changed. Two ratings were changed from highly successful to fully successful, and one rating was reduced from fully successful to minimally satisfactory. The Administrator upheld the rating recommendations of PRB.

	<u>Rating of supervisor</u>	<u>Recommendation by PRB</u>	<u>Approval by Administrator</u>
Career executives:			
Highly successful	9	7	7
Fully successful	20	21	21
Minimally satis- factory	2	3	3
Unsatisfactory	-	-	-
Noncareer executives:			
Highly successful	3	3	3
Fully successful	10	10	10
Minimally satis- factory	1	1	1
Unsatisfactory	-	-	-
Total executives rated	<u>45</u>	<u>45</u>	<u>45</u>

Bonus process

After PRB agreed on the individuals' performance ratings, the executives were ranked in order of excellence. Career and noncareer executives were ranked separately, the ranking within the various rating categories were determined on the basis of significant differences in contribution within the overall category. One major aspect of the ranking process was that a number of executives considered fully successful were precluded from receiving a bonus because they were either in the SES for too short a period of time or their performance was only at the expected level of performance and not higher. As required by the Reform Act, noncareer executives were not eligible to receive performance awards. Therefore, PRB nominated deserving noncareer executives for cash awards under the incentive awards program. PRB recommended the exact amount of bonus or incentive award an individual was to receive and also provided a range that the performance award could fall within. Also PRB left the choice with the Administrator to decide whether to pay bonuses based on 9 months' or 6 months' salary.

Although the distribution of performance awards as recommended by PRB were within the limits of the law, the Administrator was not willing to reward all executives who were nominated. As shown in the following chart, PRB recommended 20 of 31, or 64 percent, of the career executives for bonuses and 9 of 14 noncareer executives for incentive awards. The bonus amounts recommended for career executives ranged from \$3,826 to \$10,577, which was from 7 percent of the scheduled

salary rate to 20 percent. The recommended range of incentive awards to noncareer executives was from 5 percent to 20 percent of the executives' scheduled salary rate. If PRB had recommended bonuses up to the maximum allowed by the Reform Act, 87 percent of SBA career executives could have been nominated for a performance award. There is no limit on the number of noncareer executives who are eligible to receive incentive awards.

	<u>Number of SES executives</u>	<u>No. of PRB recommendations for bonuses or incentive awards</u>	<u>No. of awards approved by Administrator</u>
Career executives	31	20	15
Noncareer executives	<u>14</u>	<u>9</u>	<u>-</u>
Total	<u>45</u>	<u>29</u>	<u>15</u>

On April 16, 1980, the SBA Administrator announced that 15 of SBA's senior executives received cash bonuses for exceptional performance. This amounted to 28 percent of SES allocations, or 48 percent of eligible career executives at the time awards were made. The 15 bonuses ranged from \$2,644 to \$5,289, for an average of \$3,950, and were based on one-half-year salaries. The total amount of bonuses paid the executives was \$59,246, which was about 3 percent of total SES salaries (6 percent of one-half-year salaries). OPM guidance recommends percentages at 6 to 10 percent of total salaries.

After receiving the recommendations from PRB, the Administrator met with the Director, OPM, and his staff. According to an OPM official present at the meeting, the actual number or dollar amounts of awards which were to be distributed to SBA executives was not discussed--OPM provided only general advice to SBA to assist the Administrator in making his bonus decisions. OPM informed SBA that the Reform Act set the limit for performance awards at up to 50 percent of an agency's SES positions. OPM suggested, however, that SBA make some hard choices and award bonuses to only those executives who were clearly the best performers and that awards be based on performance and not the desire to reward as many executives as possible.

Also during the meeting a discussion of the length of SBA's performance cycle took place. SBA's performance

appraisal cycle for fiscal year 1980 bonuses was from October 1, 1979, through February 29, 1980. SBA also plans to award bonuses about December 1980 for performance from March 1, 1980, through September 30, 1980. Since SBA's first appraisal and bonus cycle was for less than a half-year period, OPM encouraged SBA to base bonus determinations on 6 months' salary, thereby effectively reducing the maximum percentage on executives performance awards from 20 percent of basic pay to 10 percent of basic pay.

Finally, the advisability of giving incentive awards to SBA's noncareer executives not eligible to receive bonuses was discussed. Generally, it was determined that it would not yet be advisable to use the incentive awards program for that purpose.

The SBA Administrator followed the advice given him by OPM to a great extent. He made the bonus reductions, chose to calculate bonuses based on 6 months' salaries, and decided not to give incentive awards to noncareer executives.

SBA'S RANK NOMINATIONS

SBA's policy on nominations for Presidential rank awards is that career SES members whose performance is exceptional for an extended period of time may be granted, in addition to base pay and performance awards, one of two Presidential ranks: Meritorious Executive and Distinguished Executive.

PRB at SBA considered not recommending any of these awards to its executives this year. But upon reflection, it decided the importance of this recognition in the overall scheme of SES was such that the awards would serve as an example to other executives. PRB provided the Administrator with a rank order listing of eight executives who it felt should be considered for nomination of a rank award. The suggested number of rank nominations was one distinguished and two meritorious rank awards. The Administrator held his selections to the suggested numbers and submitted his recommendations to OPM.

Under SBA policy, individuals are allowed to receive performance awards as well as rank awards within the same year. The reason given for this policy is that the performance award is in recognition of successful performance within the time frames of the rating cycle (that is annual ratings) and the rank awards recognize prolonged, high-quality accomplishments by SES members. All three of the executives who have been recommended for rank awards have also received performance awards.

INCENTIVE AWARDS

An SBA official stated that the agency does not plan to use the incentive awards program to recognize career executives who do not receive bonuses, nor will it use incentive awards as an addition to a performance award received by an executive. However, SBA plans to use incentive awards to a moderate extent to recognize noncareer executives who are not eligible to receive performance awards under the Reform Act.

The incentive awards program, as previously stated, was recommended for use by PRB in rewarding 9 of SBA's 14 noncareer executives for exceptional performance. However, for this rating cycle, the SBA Administrator decided not to allow the use of incentive awards for the noncareer executives.

PAY LEVEL ADJUSTMENTS

PRB also considered pay level adjustments for executives. SBA's policy is that salary adjustments should be made when an executive's sustained increase or decline in contribution relative to the entire executive group warrants a change. PRB did not feel that the current length of time under SES was sufficient to make this determination and, therefore, recommended that no adjustments be made until the October 1980 appraisal. However, the SBA Administrator granted pay level increases to two noncareer executives: one from ES-4 to ES-5 (no change in payable salary) and one from ES-2 to ES-4 (increase of \$614 in payable salary).

SBA BONUS AND RANK STATISTICS BY RATING

Rating	Executives rated (note a)		Awarded bonuses		Average amount of bonuses	Total amount of bonuses awarded (note b)	Nominated for rank awards	
	Number	Percent	Number	Percent			Number	Percent
Highly successful	7	23	7	100	\$4,628	\$32,396	3	43
Fully successful	21	68	8	38	3,356	26,850	-	-
Minimally satis- factory	3	10	-	-	-	-	-	-
Unsatisfactory	-	-	-	-	-	-	-	-
Total	<u>31</u>	<u>100</u>	<u>15</u>	<u>c/ 48</u>	<u>d/ \$3,950</u>	<u>\$59,246</u>	<u>3</u>	<u>e/ 10</u>

a/Does not add to 100 percent due to rounding.

b/Based on 6 months' salary.

c/15 divided by 31 (26 percent of 53 positions).

d/\$59,246 divided by 15.

e/3 divided by 31.

SBA BONUS AND RANK STATISTICS BY SES PAY LEVEL

SES pay level	Executives eligible		Awarded bonuses		Average amount of bonuses	Percent of average bonus to payable salary (note a)	Total amount of bonuses awarded (note a)	Nominations for rank awards	
	Number	Percent	Number	Percent of eligibles				Number	Percent of rated
ES-6	-	-	-	-	-	-	-	3	13
ES-5	1	3	-	-	-	-	-	-	-
ES-4	23	74	13	57	\$3,967	8	\$51,570	-	-
ES-3	4	13	2	50	3,838	8	7,676	-	-
ES-2	2	7	-	-	-	-	-	-	-
ES-1	1	3	-	-	-	-	-	-	-
Total	<u>31</u>	<u>100</u>	<u>15</u>	<u>b/ 48</u>	<u>c/ \$3,950</u>		<u>\$59,246</u>	<u>3</u>	<u>d/ 10</u>

a/Based on 6 months' salary.

b/15 divided by 31 (28 percent of 53 positions).

c/\$59,246 divided by 15.

d/3 divided by 31.

SBA BONUS AND RANK NOMINATIONS FOR PRB MEMBERS

<u>SES pay level</u>	<u>Rating</u>	<u>Rank nomination</u>	<u>Bonus amount (note a)</u>	<u>Percent of salary</u>
ES-4	Highly successful	Distinguished	\$5,289	20.0
ES-4	Highly successful	None	4,760	18.0
ES-4	Highly successful	Meritorious	4,760	18.0
ES-4	Highly successful	Meritorious	3,967	15.0
ES-5 (note b)	Fully successful	None	-	-
ES-4	Fully successful	None	3,173	12.0
ES-4	Fully successful	None	2,644	10.0
ES-5 (note b)	Fully successful	None	-	-
ES-3	Fully successful	None	3,838	15.0

a/Based on 6 months' scheduled salary.

b/Noncareer executives--not eligible for bonuses or ranks.

MSPB

MSPB paid bonus awards May 8, 1980, to four of its six eligible career senior executives. This constituted 67 percent of MSPB's eligible senior executives and 50 percent of the eight senior executive positions that had been allotted by OPM during the performance period.

MSPB was established by the Civil Service Reform Act (Public Law 95-454) on October 13, 1978. It was originally allocated 13 senior executive positions from OPM, 5 of which were specifically allocated to its Office of Special Counsel. In March 1980, when the first performance appraisal period was nearing completion, MSPB was allocated an additional 10 senior executive positions, bringing its total to 18, with the Office of Special Counsel's total staying at 5. The Office of Special Counsel, however, was not included in MSPB's performance appraisal and bonus system in fiscal year 1980 because it operates independently from the rest of MSPB.

The staffing of MSPB's authorities proceeded slowly, and PRB decided that only those career senior executives who had been onboard by March 1979 would be included in the first performance appraisal cycle, which would be from March 1979 to March 1980. This decision meant that only six career senior executives would be eligible for bonuses. However, by excluding career senior executives who were hired after March 1979, PRB decided that performance appraisals and bonuses could be based on a full year's performance.

PROCEDURES FOR MAY 1980 AWARDS

MSPB developed one performance appraisal system for its senior executives during its first appraisal cycle. The first step in this new performance appraisal system was for the supervisor, with his or her subordinates' input, to develop a performance appraisal plan for each senior executive under his/her direct supervision. These plans were not reviewed by PRB nor any individual or group for assuring consistency. However, PRB plans to conduct this type of review in the next appraisal cycle.

Not all plans were finalized by both the senior executive and his supervisor until November and December 1979. However, the performance appraisal period used was from March 1979 to March 1980. This approach was contrary to MSPB's own performance appraisal system plan which states that performance plans should be developed before the beginning of the rating period. The result was that performance objectives were not written until near the end of the performance appraisal period. This

occurred because MSPB was just becoming administratively operational during 1979, and the development and implementation of the SES performance appraisal system was not fully developed until later in this period.

The performance appraisal period closed in March 1980, and by mid-April all senior executives had been appraised and recommended for a specific bonus amount, where applicable, by their supervisors. In two cases, a higher level review also took place due to the lower position of these two senior executives in the MSPB organizational structure. In one of these cases, however, the bonus amount recommended by the supervisor was increased from \$5,000 to \$9,000 due to the higher authority's view that the senior executive's performance was worthy of a higher bonus.

PRB began reviewing the six performance appraisals and supervisor's bonus recommendations at the end of April 1980. PRB was composed of three MSPB senior executives, three executives from outside agencies and the PRB Chairman. The three executives from outside agencies were included in PRB to increase its breadth of managerial expertise as well as its objectivity of balancing the other half of the PRB membership.

Each of the following agencies sent one representative to sit on MSPB's PRB: the Federal Labor Relations Authority, the National Labor Relations Board, and the Alaska Natural Gas Transportation System. The first two representatives were chosen because of their agencies' similarity to MSPB, and the latter was chosen because he worked in an agency which, like MSPB, was recently established.

The PRB members decided that, to enhance their objectivity and to preclude them from being put in the position of having to review their colleagues, the three MSPB members should not participate in PRB's appraisal and bonus deliberations. Furthermore, the full PRB decided that only a maximum of four bonuses would be awarded, based upon 50 percent of MSPB's initial allocation of eight SES positions. The Alaska Natural Gas Transportation System representative was unable to attend any of the PRB deliberations concerning ratings or bonuses. This left only the two other outside members and the PRB Chairman, the minimum number necessary to review ratings and bonuses according to OPM guidance.

Initially, each of the three PRB members independently reviewed each of the six senior executives' performance plans and ratings. Then they met on April 30, 1980, and made bonus

recommendations. All ratings and bonus amounts recommended by supervisors were supported by PRB except in one case where PRB agreed with the decision made at the higher level review raising the recommended bonus amount. PRB based its review on both individual and organizational performance, but there was no pre-set list of criteria upon which PRB should base its judgments.

PRB recommended bonuses for four of the six eligible senior executives. The appointing authority--the Chairwoman of MSPB--approved all of PRB's bonus recommendations and amounts. Bonuses were paid to senior executives on May 8, 1980.

The four senior executives awarded bonuses constituted 50 percent of MSPB's authorized senior executive allocation and 67 percent of all eligible executives rated. All the executives awarded bonuses had fully successful ratings or better and all bonuses were 20 percent or less of the executives' payable salaries. The average bonus was \$8,875. PRB noted that the bonus amounts were higher than "might routinely be expected in normal years" but stated that the unusual difficulties and accomplishments of the agency during the rating period fully justified the relatively high bonus recommendations made.

RANKS AND INCENTIVE AWARDS

MSPB views bonuses, ranks, and incentive awards each as separate management programs, each serving a separate purpose:

- Bonuses are for rewarding career senior executive performance during a specified rating period.
- Incentive awards are for any MSPB employee, including senior executives, who performs a specific act worthy of being singled out and rewarded.
- Rank awards are for career senior executive long-term-sustained superior performance.

Thus, in MSPB, a career senior executive could receive a bonus, a rank award, and an incentive award all in any one year. While this did not happen for the May 1980 bonuses, one career senior executive who received a bonus was nominated to OPM for a Distinguished Executive rank. Also, two career senior executives who received bonuses also received incentive awards of \$750 in fiscal year 1980. MSPB officials believed the policy of giving out or nominating senior executives for two or even three types of awards in any one year, if deserving, was appropriate. However, an MSPB official noted that

this policy would be revised in the light of OPM's recently issued guidance recommending that multiple awards in any one year should be avoided if possible.

PAY LEVEL ADJUSTMENTS

For one senior executive, who also received a bonus, PRB recommended that his pay level be increased from ES-2 to ES-4. This recommendation was based on PRB's assessment that the duties and difficulty of the standards and objectives established for this individual justified a higher ES level. The appointing authority concurred in PRB's recommendation, and the executive was raised to the ES-4 level.

MSPB BONUS AND RANK STATISTICS BY RATING

Rating	Executives rated		Awarded bonuses		Average amount of bonuses	Total amount of bonuses awarded (note a)	Nominated for rank awards	
	Number	Percent	Number	Percent of rated			Number	Percent of rated
Meritorious	1	17	1	100	\$10,000	\$10,000	1	100
Highly successful	3	50	3	100	8,500	25,500	-	-
Fully successful	2	33	-	-	-	-	-	-
Minimally satisfactory	-	-	-	-	-	-	-	-
Unsatisfactory	-	-	-	-	-	-	-	-
Total	<u>6</u>	<u>100</u>	<u>4</u>	<u>b/ 67</u>	<u>c/ \$ 8,875</u>	<u>\$35,500</u>	<u>1</u>	<u>a/ 17</u>

a/1 divided by 6.

b/4 divided by 6 (50 percent of 8 positions).

c/\$35,500 divided by 4.

MSPB BONUS AND RANK STATISTICS BY SES PAY LEVEL

SES pay level	Executives eligible		Awarded bonuses		Average amount of bonuses	Percent of average bonus to payable salary (note a)	Total amount of bonuses awarded	Nominated for rank awards	
	Number	Percent	Number	Percent of eligibles				Number	Percent of eligibles
ES-6	2	33	1	50	\$10,000	20	\$10,000	1	50
ES-5	1	17	-	-	-	-	-	-	-
ES-4	1	17	1	100	7,500	15	7,500	-	-
ES-3	-	-	-	-	-	-	-	-	-
ES-2	2	33	a/ 2	100	9,000	18	18,000	-	-
ES-1	-	-	-	-	-	-	-	-	-
Total	<u>6</u>	<u>100</u>	<u>4</u>	<u>b/ 67</u>	<u>c/ \$8,875</u>		<u>\$35,500</u>	<u>1</u>	<u>d/ 17</u>

a/PRB members (did not participate in bonus decisions).

b/4 divided by 6 (50 percent of 8 positions).

c/\$35,500 divided by 4.

d/1 divided by 6.

NCPC

On July 2, 1980, NCPC's PRB recommended to the NCPC Chairman that two of five senior executives (40 percent) receive performance awards. The Chairman initially approved the performance awards but then rescinded them at the request of OPM.

NCPC's SES performance appraisal system was approved by OPM on October 2, 1979. At that time, the agency's five senior executives (all career executives) had established performance standards, and the system was set into motion. NCPC's performance rating and bonus cycle ran from October 1, 1979, through June 15, 1980. NCPC's subsequent performance rating and bonus cycles will follow an annual cycle concluding in mid-June each year.

NCPC's PRB is comprised of all five of the agency's senior executives. As with SBA and NASA, there was no outside agency representation on PRB. PRB members met to discuss ratings and performance awards on July 2, 1980, and recommended to the NCPC Chairman that two of the five senior executives (40 percent) receive performance awards. On the same day, the Chairman approved PRB's recommendations. But on July 2, 1980, the Congress had passed the Fiscal Year 1980 Supplemental Appropriations Act limiting bonus awards to no more than 25 percent of Senior Executive Service positions in an agency. However, the NCPC Chairman stated in a July 11, 1980, letter to the Director, OPM, that the timing of the PRB meeting was in no way related to the congressional review of the SES bonus system. He added that, at the time PRB met and he approved its recommendations, he was unaware of the 25-percent limitation agreed to by the conferees.

On July 10, 1980, the Deputy Director, OPM, wrote to NCPC alerting it of the Supplemental Appropriations Act's limitation on performance awards and the Director's position that all agencies should exercise extreme caution and restraint in awarding bonuses. OPM recommended that, since the NCPC's action on bonuses was clearly contrary to expressed congressional intent to limit bonuses, the awards should be rescinded until OPM issues further guidance. On July 11, 1980, in response to OPM's request, the NCPC Chairman rescinded his approval of the bonuses which had not yet been paid. According to an NCPC official, all bonus decisions will be held off until August, and will comply with the current 25-percent limitation established by the Congress.

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