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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FEDERAL PERSONNEL AND
COMPENSATION DIVISION

B-196181

September 19, 1980

The Honorable Robert A. Frosch
Administrator, National Aeronautics
and Space Administration

Q805
Budget Code ~~2350~~
Issue Area 0330

Dear Dr. Frosch:

Subject: [First Look at Senior Executive Service
Performance Awards/NASA] (FPCD-80-85)

During July 1980, members of my staff reviewed Senior Executive Service (SES) bonus payments at the National Aeronautics and Space Administration (NASA) and two other agencies as part of a study directed by the Congress. Results of this study are included in our report entitled "First Look at Senior Executive Service Performance Awards," FPCD-80-74, August 15, 1980 (copy enclosed).

We concluded that the performance awards were within the requirements of the Civil Service Reform Act, as well as Office of Personnel Management (OPM) guidance. But we reported that each of the agencies experienced some procedural difficulties in administering these awards. We did not make specific recommendations to the three agencies in our report. In lieu of this, we are writing this letter to share a few of our observations about NASA's bonus system and to outline some recommendations you may wish to consider.

COMPOSITION OF THE PERFORMANCE
REVIEW BOARDS (PRBs)

All of NASA's Executive Position Managers (EPMs) received either bonuses or meritorious or distinguished rank nominations. As you know, the Senior Executive Committee serves as the PRB for FPM bonus and performance rating recommendations. The committee was chaired by the Deputy Administrator who was also the official responsible for rating and recommending EPMs for bonuses.

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The percentage of executives receiving bonuses or rank nominations, as well as the greater dollar amounts of bonuses, were skewed to the top of NASA's organizational hierarchy. The nine PRB members were all NASA executives at the top two SES levels.

While we did not detect any evidence of abuse of the bonus system, we believe that NASA could add credibility and objectivity to its bonus decisions if both the Senior Executive Committee and the PRB had one or more impartial members from outside the agency to participate in PRB decisions. OPM guidance on bonuses issued on July 21, 1980, also suggests agencies consider including one or more members from another Federal agency on their PRBs to further add to the objectivity of the review process. In addition, to avoid any appearance of favoritism, we believe that it would be desirable to include representatives from NASA's lower SES levels in its PRB.

In our report on bonuses, we recommended that OPM

"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.)"

We recommend that NASA add this representation to its PRB and Senior Executive Committee.

CONSISTENCY BETWEEN BONUS DECISIONS AND RATINGS

In keeping with a philosophy of delegating decisionmaking to EPMS 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 decisions for ratings and bonuses to EPMS. The PRB reviewed the EPMS' recommendations and accepted them as submitted.

The concept of delegating decisionmaking although desirable did cause some inconsistency between ratings and bonus decisions. NASA's ratings and award distribution varied considerably from one EPM organization to another. Some senior executives receiving outstanding ratings in one EPM organization did not receive bonuses, while individuals receiving successful ratings in another EPM 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.

We were told that this occurred because NASA officials believe that performance ratings, while providing a primary basis for determining eligibility for bonuses, should not be the sole basis for the decision. They maintain that at the end of an appraisal period, supervisors must be delegated authority to consider other factors, such as responsibility, risk, complexity, environment, and overall contribution to the agency in deciding on performance ratings and awards.

NASA's actions to delegate decisionmaking to a lower level and to consider factors beyond the rating are understandable. Also, the Reform Act and OPM guidelines require only that executives have fully successful performance to be eligible for bonuses. However, we believe that optimum consistency should be maintained within NASA's organizations where the rating and bonus decisions are initially made.

We also believe that if factors such as level of responsibility, job complexity, and overall contribution by virtue of the position are considered in the decision process for awards, the use of such factors should be known and understood by all senior executives and, to the extent possible, incorporated into the performance plan at the beginning of the rating period. For example, this might be accomplished by weighting such factors as job complexity, risk, and responsibility. However, when for various reasons these factors cannot be included in performance plans, we believe that their use in making individual bonus recommendations should be documented.

Hence, we recommend that to increase the appearance of objectivity and fairness of rating and bonus decisions, NASA (1) keep senior executives aware of factors considered in the decision process for awards, (2) whenever possible, incorporate bonus decision factors into the performance plans, and (3) to the extent possible, make bonus decisions consistent with ratings within and between each EPM organization. The latter recommendation could be accomplished by EPMs and the PRB during the rating review process either by requiring adjustments to the ratings when justified to reflect additional factors or by requiring written documentation of the factors considered beyond the rating document.

In addition, to enhance agencywide consistency and fairness in performance plans, we recommend that the PRB review

performance plans at the beginning of the rating period. We believe that executive awareness, inclusion of bonus decision factors in performance plans, and optimum consistency between bonus recommendations and ratings will help minimize any perceptions by SES members of abuse in the bonus decision process.

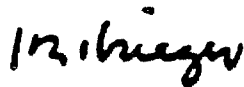
In regard to the above recommendations, we understand several EPMs were given instructions for making ratings more consistent. We also acknowledge the importance and complexity of the issue of using factors beyond the rating instrument as a consideration in bonus decisions and have identified this as one of the issues OPM should address in its studies of SES. This is especially true in a period of executive pay compression.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

I want to take this opportunity to express my appreciation for the cooperation given us by your staff in this review. Although the subject was highly controversial, they were very candid in their discussions with us and promptly provided us with information we requested.

Sincerely yours,



H. L. Krieger
Director

Enclosure