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**RESULTS-ORIENTED
CULTURES**

**Modern Performance
Management Systems Are
Needed to Effectively
Support Pay for
Performance**

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Director, Strategic Issues





Highlights of [GAO-03-612T](#), testimony before the Subcommittee on Civil Service and Agency Organization, Committee on Government Reform, House of Representatives

Why GAO Did This Study

There is widespread agreement that the basic approach to federal pay is broken and that it needs to be more market- and performance-based. Doing so will be essential if the federal government is to maximize its performance and assure accountability for the benefit of the American people. While there will be debate and disagreement about the merits of individual reform proposals, all should be able to agree that a performance management system with adequate safeguards, including reasonable transparency and appropriate accountability mechanisms in place, must serve as the fundamental underpinning of any fair, effective, and appropriate pay reform.

At the request of the Subcommittee, GAO discussed the key practices for effective performance management that federal agencies should consider as they develop and implement performance management systems as part of any pay reform.

www.gao.gov/cgi-bin/getrpt?GAO-03-612T.

To view the full testimony statement, click on the link above. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

RESULTS-ORIENTED CULTURES

Modern Performance Management Systems Are Needed to Effectively Support Pay for Performance

What GAO Found

The need for results-oriented pay reform is one of the most pressing human capital issues facing the federal government today. To implement results-oriented pay reform, commonly referred to as “pay for performance,” agencies must have modern, effective, credible, and validated performance management systems that are capable of supporting pay and other personnel decisions. Pay for performance works only with adequate safeguards, including reasonable transparency and appropriate accountability mechanisms in place, to ensure its fair, effective, and responsible implementation. Modern performance management systems are the centerpiece of those safeguards and accountability.

Most federal agencies are a long way from meeting this test. All too often, agencies’ performance management systems are based on episodic and paper intensive exercises that are not linked to the strategic plan of the organization and have only a modest impact on the pay, use, development, and promotion potential of federal workers. Leading organizations, on the other hand, use their performance management systems to accelerate change, achieve desired organizational results, and facilitate two-way communication throughout the year so that discussions about individual and organizational performance are integrated and ongoing. Effective performance management systems are not merely used for once- or twice-yearly individual expectation setting and ratings processes, but are tools to help the organization manage on a day-to-day basis.

GAO identified key practices leading public sector organizations both here in the United States and abroad have used in their performance management systems to link organizational goals to individual performance and create a “line of sight” between an individual’s activities and organizational results. These practices can help agencies develop and implement performance management systems with the attributes necessary to effectively support pay for performance.

Madam Chairwoman and Members of the Subcommittee:

I am pleased to be here today to discuss the need for results-oriented pay reform, one of the most pressing human capital issues currently facing the federal government. My major point today is that, as Comptroller General Walker has said, in order to implement such reforms, commonly referred to as “pay for performance,” agencies must have modern, effective, credible, and validated performance management systems that are capable of supporting pay and other personnel decisions. Quite simply, pay for performance works only with adequate safeguards, including reasonable transparency and appropriate accountability mechanisms in place, to ensure its fair, effective, and responsible implementation. Modern performance management systems are the centerpiece of those safeguards and accountability.

Unfortunately, most federal agencies are a long way from meeting this test. All too often, we find that agencies’ performance management systems are based on episodic and paper-intensive exercises that are not linked to the strategic plans of the organizations and have only a modest impact on the pay, use, development, and promotion potential of federal workers. Leading organizations, on the other hand, use their performance management systems to accelerate change, achieve desired organizational results, and facilitate two-way communication throughout the year so that discussions about individual and organizational performance are integrated and ongoing. Effective performance management systems are not merely used for once- or twice-yearly individual expectation setting and ratings processes, but are tools to help the organization manage on a day-to-day basis. Chairwoman Davis, today you are releasing a report that we prepared at your and Senator Voinovich’s request that shows specific practices that leading public sector organizations here in the United States and abroad have used in their performance management systems to create clear linkages between individual performance and organizational success.¹

There can be little question that modernizing agency performance management systems and linking them to agency strategic plans and desired outcomes should be a top priority. The Office of Personnel

¹U.S. General Accounting Office, *Results-Oriented Cultures: Creating a Clear Linkage between Individual Performance and Organizational Success*, GAO-03-488 (Washington, D.C.: Mar. 14, 2003).

Management's (OPM) recently released 2002 Federal Human Capital Survey found that better performance management systems are needed in federal agencies. The results show that while 80 percent of federal employees believe they are held accountable for results, most are not satisfied with the recognition or the rewards they receive for a job well done. Specifically, less than half of employees believe that the awards in their work units depend on how well employees perform their jobs and less than a third of employees believe that their organizations' awards programs provide them with an incentive to do their best. Also, less than a third of employees agree that steps are taken to deal with poor performers.

These results appear to reinforce the findings from OPM's white paper on modernizing federal pay issued in April 2002.² The paper described the need for the federal pay system to be more performance-oriented, flexible, and market-sensitive as well as a better tool for improving strategic human capital management. It amply demonstrated that the current federal pay system was designed for the heavily clerical and low graded workforce of the 1950s rather than today's knowledge-based government. Similarly, OPM's survey results underscore the findings of the National Commission on the Public Service's recent report, *Urgent Business for America: Revitalizing the Federal Government for the 21st Century*. The commission observed that agencies need greater freedom to connect pay both to the market and to performance. As the nature of the federal workforce has changed, so too should its pay system if we are to effectively compete for top talent and create incentives for both individual and institutional success.

The Congress and the administration are working on initial steps to implement result-oriented pay reform and modern performance management systems across the executive branch.

- The Homeland Security Act of 2002, passed by the Congress in November, provides for the increase of the total annual compensation limit for senior executives (from \$171,900 to \$198,600 for 2003) in those agencies that OPM and the Office of Management and Budget certify as having performance appraisal systems that, as designed and applied, make meaningful distinctions based on relative performance.

²Office of Personnel Management, *A White Paper: A Fresh Start for Federal Pay: The Case for Modernization* (Washington, D.C.: April 2002).

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- The administration proposed for the fiscal year 2004 budget to allow managers to increase pay beyond annual raises for high-performing employees. OPM would administer a \$500 million Human Capital Performance Fund for the purpose of allowing agencies to deliver additional pay to certain employees based on individual performance or other human capital needs, in accordance with plans submitted to and approved by OPM.
 - In addition, in the fiscal year 2004 budget proposal, the administration proposed the creation of a wider, more open pay range for senior executive compensation, thus allowing for pay to be more directly tied to performance. This is consistent with the proposals you and Senator Voinovich are considering.

Today, I will highlight the key practices for effective performance management that federal agencies should consider as they revise their performance management systems to be more results-oriented, customer-focused, and collaborative in nature. These practices are fully discussed in the report that you are releasing today. Next, I will discuss what selected federal agencies have done to implement results-oriented pay reforms, including how we in GAO are implementing a broadbanded pay for performance system as part of our performance management system. Last, I will suggest next steps for results-oriented pay reform for all interested parties as they work together to better link pay to performance.

Key Practices for Effective Performance Management

We identified specific practices that leading public sector organizations both here in the United States and abroad have used in their performance management systems to create a clear linkage—“line of sight”—between individual performance and organizational success. Federal agencies should consider these practices as they develop and implement the modern, effective, and credible performance management systems with the adequate safeguards, including reasonable transparency and appropriate accountability mechanisms in place, needed to effectively link pay to performance. The key practices include the following.³

³We included the agency examples supporting the key practices primarily from previously issued GAO reports. We did not update the examples, and as a result, the information in the examples may, or may not, have changed since the issuance of these reports.

1. Align individual performance expectations with organizational goals. An explicit alignment of daily activities with broader results helps individuals see the connection between their daily activities and organizational goals and encourages individuals to focus on their roles and responsibilities to help achieve those goals. To this end, for example, the Federal Aviation Administration (FAA) was able to show in fiscal year 2000 how the Department of Transportation's strategic goal to promote public health and safety was cascaded through the FAA Administrator's performance expectation to reduce the commercial air carrier fatal accident rate to a program director's performance expectation to develop software to help aircraft maintain safe altitudes in their approach paths.

2. Connect performance expectations to crosscutting goals. As public sector organizations shift their focus of accountability from outputs to results, they have recognized that the activities needed to achieve those results often transcend specific organizational boundaries. High-performing organizations use their performance management systems to strengthen accountability for results, specifically by placing greater emphasis on fostering the necessary collaboration, interaction, and teamwork across organizational boundaries to achieve these results. In this regard, the Veterans Health Administration's Veterans Integrated Service Network (VISN) headquartered in Cincinnati implemented performance agreements in 2000 for the "care line" directors, such as primary care or mental health directors, that included improvement goals related to that care line for the entire VISN. To make progress towards these goals, the mental health care line director had to work collaboratively with the corresponding mental health care line managers at each of the four medical centers to establish consensus among VISN officials and external stakeholders on the strategic direction for the services provided by the mental health care line across the VISN, among other things.

3. Provide and routinely use performance information to track organizational priorities. High-performing organizations provide objective performance information to individuals to show progress in achieving organizational results and other priorities and help them to manage during the year, identify performance gaps, and pinpoint improvement opportunities. Having this performance information in a useful format also helps individuals track their performance against organizational goals and compare their performance to that of other individuals. For example, the Bureau of Land Management's (BLM) Web-based data system, called the Director's Tracking System, collects and makes available on a real-time basis data on each senior executive's

progress in his or her state office towards BLM's organizational priorities, such as the wild horse and burro program, and the resources expended on each priority.

4. Require follow-up actions to address organizational priorities.

High-performing organizations require individuals to take follow-up actions based on performance information available to them. By requiring and tracking such follow-up actions on performance gaps, these organizations underscore the importance of holding individuals accountable for making progress on their priorities. For example, the Federal Highway Administration required senior executives to use 360-degree feedback instruments to solicit employees' views on their leadership skills in 2001. The senior executives were to identify action items based on the feedback and incorporate them into their individual performance plans for the next fiscal year. While the 360-degree feedback instrument was intended for developmental purposes to help senior executives identify areas for improvement and is not included in the executives' performance evaluations, executives were held accountable for taking some action on the 360-degree feedback results and responding to the concerns of their peers, customers, and subordinates.

5. Use competencies to provide a fuller assessment of performance.

High-performing organizations use competencies, which define the skills and supporting behaviors that individuals need to effectively contribute to organizational results, and are based on valid, reliable, and transparent performance management systems. To this end, the Internal Revenue Service (IRS) implemented a performance management system in fiscal year 2000 that requires executives and managers to include critical job responsibilities with supporting behaviors (broad actions and competencies) in their performance agreements each year. The critical job responsibilities and supporting behaviors are intended to provide executives and managers with a consistent message about how their daily activities are to reflect the organization's core values.

6. Link pay to individual and organizational performance. High-performing organizations seek to create pay, incentive, and reward systems that clearly link employee knowledge, skills, and contributions to organizational results. At the same time, these organizations recognize that valid, reliable, and transparent performance management systems with adequate safeguards for employees are the precondition to such an approach. In the Canadian Province of Ontario, an individual executive's performance pay is based on the performance of the provincial government

as a whole, the executive's home ministry, the ministry's contribution to governmentwide results, as well as the individual's own performance. The amount of the award can range up to 20 percent of base salary.

7. Make meaningful distinctions in performance. Effective performance management systems seek to achieve three key objectives to help make meaningful distinctions in performance: (1) they strive to provide candid and constructive feedback to help individuals maximize their contribution and potential in understanding and realizing the goals and objectives of the organization, (2) they seek to provide management with the objective and fact-based information it needs to reward top performers, and (3) they provide the necessary information and documentation to deal with poor performers. For example, IRS established an executive compensation plan for determining base salary, performance bonuses, and other awards for its senior executives that is intended to explicitly link individual performance to organizational performance. As part of this plan, IRS converts senior executive performance appraisal ratings into points to help ensure realistic and consistent performance ratings. Each IRS business unit has a "point budget" for assigning performance ratings, which is the total of four points for each senior executive in the unit. For fiscal year 2001, an "outstanding" rating converted to six points; an "exceeded" rating to four points, which is the baseline; a "met" rating to two points; and a "not met" rating to zero points. If the business unit exceeded its point budget, it had the opportunity to request additional points from the Deputy Commissioner. IRS officials indicated that none of the business units requested additional points for the fiscal year 2001 ratings.

The senior executive performance appraisal ratings and bonuses for fiscal year 2001 show that IRS is beginning to make distinctions in pay related to performance. For fiscal year 2001, 31 percent of the senior executives received a rating of outstanding compared to 42 percent for fiscal year 2000, 49 percent received a rating of exceeded expectations compared to 55 percent, and 20 percent received a rating of met expectations compared to 3 percent. In fiscal year 2001, 52 percent of senior executives received a bonus, compared to 56 percent in fiscal year 2000. IRS officials said that IRS is still gaining experience using the new compensation plan and will wait to establish trend data before it evaluates the link between performance and bonus decisions.

8. Involve employees and stakeholders to gain ownership of performance management systems. High-performing organizations have found that actively involving employees and stakeholders in developing performance management systems and providing ongoing training on the systems helps increase their understanding and ownership of the organizational goals and objectives. As one of the single most important safeguards that they can put in place, these leading organizations consulted a wide range of employees and stakeholders early in the process, obtained direct feedback from them, and engaged employee unions or associations. For example, in New Zealand, an agreement between government and the primary public service union created a “Partnership for Quality” framework that provides for ongoing, mutual consultation on issues such as performance management. Specifically, the Department of Child, Youth, and Family Services and the Public Service Association entered into a joint partnership agreement that emphasizes the importance of mutual consideration of each other’s organizational needs and constraints.

9. Maintain continuity during transitions. The experience of successful cultural transformations and change management initiatives in large public and private organizations suggests that it can often take 5 to 7 years until such initiatives are fully implemented and cultures are transformed in a substantial manner. Because this time frame can easily outlast the tenures of top political appointees, high-performing organizations recognize that they need to reinforce accountability for organizational goals during times of leadership transitions through the use of performance agreements as part of their performance management systems. For example, the Ontario Public Service institutionalized the use of performance agreements in its performance management system to withstand organizational changes and cascaded the performance agreements from top leadership to front line employees.

Creating a Results-Oriented Approach to Federal Pay

With the performance management practices of leading organizations in mind, we need to fundamentally rethink our approach to federal pay and develop an approach that places a greater emphasis on a person’s knowledge, skills, position, and performance rather than the passage of time, the rate of inflation, and geographic location. Under the current federal pay system, the overwhelming majority of each year’s increase in federal employee pay is largely unrelated to an employee’s knowledge, skills, position, or performance. In fact, over 80 percent of the cost associated with the annual increases in federal salaries is due to longevity and the annual pay increase. In addition, current federal pay gaps vary by

the nature of the person's position; yet the current method for addressing the pay gap assumes that it is the same throughout government. We must move beyond this outdated, "one size fits all approach" to paying federal employees. Under authorities granted by the Congress, a number of agencies are at various stages in using approaches in their pay and award systems that are designed to be more flexible and results-oriented.

U.S. General Accounting Office. We at GAO believe it is our responsibility to lead by example. Our people are our most valuable asset, and it is only through their combined efforts that we can effectively serve our clients and country. By managing our workforce strategically and focusing on results, we are helping to maximize our own performance and ensure our own accountability. By doing so, we also hope to demonstrate to other federal agencies that they can make similar improvements in the way they manage their people.

We have identified and made use of a variety of tools and flexibilities, some of which were made available to us through the GAO Personnel Act of 1980 and our human capital legislation enacted in 2000, but most of which are available to federal agencies. The most prominent change in human capital management that we implemented as a result of the GAO Personnel Act of 1980 was a broadbanded pay-for-performance system. The primary goal of this system is to base employee compensation primarily on the knowledge, skills, and performance of individual employees. It provides managers flexibility to assign and use employees in a manner that is more suitable to multi-tasking and the full use of staff. Importantly, careful design and effective implementation is crucial to obtaining the benefits of broadbanding in an equitable and cost-effective manner. Under our current broadbanded system, analyst and analyst-related staff in grades 7 through 15 were placed in three bands. High-performing organizations continually review and revise their performance management systems to support their strategic goals. In that spirit, we expect to modify our banded system in the future based on our experience to date.

In January 2002, we implemented a new competency-based performance management system that is intended to create a clear linkage between employee performance and our strategic plan and core values. It includes 12 competencies that our employees overwhelmingly validated as the keys to meaningful performance at GAO. The competencies are

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- achieving results,
 - maintaining client and customer focus,
 - developing people,
 - thinking critically,
 - improving professional competence,
 - collaborating with others,
 - presenting information orally,
 - presenting information in writing,
 - facilitating and implementing change,
 - representing GAO,
 - investing resources, and
 - leading others.

These competencies are the centerpiece of our other human capital programs, such as promotions, pay decisions, and recognition and rewards.

Under our revised system, pay-banded employees are placed in one of five pay categories based on their demonstrated competencies, performance, and contributions to organizational goals. Merit pay increases across these five categories range from up to about \$5,700 for some of those in the top pay category to no merit increases for those in the lowest category. In addition, those in the top two categories receive bonuses, referred to as “Dividend Performance Awards,” of \$1,000 and \$500, respectively.

As a result of GAO's implementation of its new competency-based performance management system and other changes to key human capital programs, GAO has been able to achieve greater dispersion in its performance appraisals and merit pay decisions. For example, for fiscal year 2002, the GAO-wide average performance appraisal rating was 2.19 (out of 5) compared with 4.26 (out of 5) for fiscal year 2001. Similarly, under the new system, no employees received a score of 4.7 or higher,

while 19 percent of employees received a score of 4.7 or higher for fiscal year 2001.

Federal Aviation Administration. The Congress granted FAA wide-ranging personnel authorities in 1996 by exempting the agency from key parts of Title 5. Among the initiatives FAA subsequently introduced were a pay system in which compensation levels are set within pay bands and a performance management system intended to improve employees' performance through more frequent feedback with no summary rating.

The pay band system includes plans tailored to specific employee segments: a core compensation plan for the majority of nonunion employees and negotiated versions of the core compensation plan for employees represented by unions; a unique pay plan for air traffic controllers and air traffic managers; and an executive pay plan for nonpolitical executives, managers, and some senior professionals.

Under its core compensation plan, all eligible employees can receive permanent pay increases, called organizational success increases, based on the FAA Administrator's assessment of the extent to which the entire agency has achieved its annual goals. In addition, notably high-performing individuals may receive additional permanent pay increases, called superior contribution increases, based on supervisory recommendation.⁴ The criteria for awarding a superior contribution increase include collaboration, customer service, and impact on organizational success.

At the end of the performance evaluation cycle, employees receive a narrative performance summary instead of a year end rating that defines employees' performance in specific categories. That is, FAA's performance management system does not use a multi-tiered rating system to rate individual employee performance. We have previously raised concerns that such approaches may not provide enough meaningful information and dispersion in ratings to recognize and reward top performers, help everyone attain their maximum potential, and deal with poor performers. Moreover, FAA employee performance summaries reflect an assessment of achievements based on outcomes and expectations, while professional competencies such as collaboration and customer service are elements of the compensation system. As a result, the performance management

⁴Under the core compensation plan, employees who do not meet minimum requirements do not receive either of the permanent pay increases.

system is not directly linked to pay elements in FAA's compensation systems.

In February 2003, we reported that FAA's human capital reform efforts were still in progress.⁵ While FAA has established preliminary linkages between its reform goals and the agency's program goals, we found that the lack of explicit linkage will make it difficult to assess the effects of the reform initiatives on the program goals of the organization even after data, measurable goals, and performance measures for human capital management efforts are established. FAA has acknowledged the importance of establishing these elements and has repeatedly said that it is working to collect and analyze data and develop performance goals and measures. However, it has not completed these critical tasks, nor has it established specific steps and time frames by which it will do so.

Internal Revenue Service. IRS was granted broad authority related to its human capital management through the IRS Restructuring and Reform Act of 1998. The Restructuring and Reform Act gave the Secretary of the Treasury various pay and hiring flexibilities not otherwise available under Title 5, such as the authority to establish new systems for hiring and staffing, compensation, and performance management.⁶ Some of these flexibilities are intended to allow IRS managers more discretion in rewarding good performers and in making employees accountable for their performance.

⁵U.S. General Accounting Office, *Human Capital Management: FAA's Reform Effort Requires a More Strategic Approach*, GAO-03-156 (Washington, D.C.: Feb. 3, 2003).

⁶U.S. General Accounting Office, *Human Capital: Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces*, GAO-03-2 (Washington, D.C.: Dec. 6, 2002).

IRS implemented new performance management systems for executives and managers for fiscal year 2000 and for the front line employees for fiscal year 2001. As an initial step, IRS implemented a pay for performance system for senior executives beginning in fiscal year 2001, which emphasizes performance in determining compensation and makes meaningful distinctions in senior executive performance.⁷ In July 2002, we reported that IRS had not completed all the elements of the redesign that it envisioned.⁸ IRS said that it expects to integrate the new systems with its overall human resources systems linking evaluations to decisions about developmental needs, rewards and recognition, and compensation. IRS anticipates that the complete redesign and implementation of the performance management systems will take about 5 years.

OPM Personnel Demonstration Projects. Personnel demonstration projects, authorized by OPM under the authority provided by the Civil Service Reform Act of 1978, provide a means for testing and introducing beneficial change in governmentwide human resources management systems. Over the past 25 years, 17 demonstration projects have been implemented across the federal government. Twelve of these demonstration projects have implemented some form of pay for performance compensation system. OPM reports that demonstration projects that have implemented pay for performance have shown increased retention of high performers.⁹

To become a demonstration project, a federal agency obtains authority from OPM to waive existing federal human resources management law and regulations in Title 5 and propose, develop, test, and evaluate interventions for its own human resources management system that shape the future of federal human resource management.¹⁰ Under the demonstration project authority, OPM approves project plans and regulations, approves project

⁷U.S. General Accounting Office, *Results-Oriented Cultures: Using Balanced Expectations to Manage Senior Executive Performance*, GAO-02-966 (Washington, D.C.: Sept. 27, 2002).

⁸U.S. General Accounting Office, *Performance Management Systems: IRS's Systems for Frontline Employees and Managers Align with Strategic Goals but Improvements Can Be Made*, GAO-02-804 (Washington, D.C.: July 12, 2002).

⁹U.S. Office of Personnel Management, *Demonstration Projects and Alternative Personnel Systems: HR Flexibilities and Lessons Learned* (Washington, D.C.: September 2001).

¹⁰No waivers of law are permitted in areas of employee leave, employee benefits, equal employment opportunity, political activity, merit system principles, or prohibited personnel practices.

evaluation plans, provides technical assistance to agencies, publishes plans, and disseminates results. The agencies are responsible for designing and implementing project plans and regulations; consulting with unions and employees about project design; and designing, conducting, and funding evaluations.

For example, the Department of Defense (DOD) implemented a personnel demonstration project covering members of its civilian acquisition, technology, and logistics workforce in 1999. Recognizing the need to reform and modernize its acquisition performance management system in order to perform efficiently and effectively, DOD designed the project to provide incentives and rewards to multi-skilled personnel, allow managers to compete with the private sector for the best talent and make timely job offers, and provide an environment that promotes employee growth and improves local managers' ability and authority to manage their workforces.

The project replaced 22 occupational families with 3 career paths; reduced the 15 General Schedule grades to 3 to 5 pay bands; and implemented a contribution-based compensation and appraisal system, which measures an employee's contribution to the mission and goals of the organization. This compensation system is designed to enable the organization to motivate and equitably compensate employees based on their contribution to the mission. Salary adjustments and contribution awards are to be based on an individual's overall annual contribution when compared to all other employees and their current level of compensation. Contribution is to be measured using a standard set of competencies that apply to all career paths. These competencies are (1) problem solving, (2) teamwork/cooperation, (3) customer relations, (4) leadership/supervision, (5) communication, and (6) resource management.

A detailed evaluation of project results is due to OPM in May of this year that is to assess such fundamental issues as the extent to which the demonstration project improved the link between pay and contribution to organizational goals and objectives. Preliminary data indicate that the attrition rate for high contributors is declining while the attrition rate for low contributors is increasing. DOD officials we spoke with told us that increased pay setting flexibility has allowed organizations to offer more competitive salaries, which in turn has improved recruiting.

Next Steps for Results-Oriented Pay Reform

We believe that as part of the exploration now under way of using more market- and performance-based approaches to federal pay, we need to continue to experiment with providing agencies with the flexibility to pilot alternative approaches to setting pay and linking pay to performance.

In the short term, the Congress may wish to explore the benefits of broadbanding by (1) giving OPM additional flexibility that would enable it to grant governmentwide authority for all agencies (i.e., class exemptions) to use broadbanding for certain critical occupations and/or (2) allowing agencies to apply to OPM (i.e., case exemptions) for broadbanding authority for their specific entities or occupations. However, agencies should be required to demonstrate to OPM's satisfaction that they have modern, effective, credible, and validated performance management systems in place before they are allowed to use broadbanding or related pay for performance initiatives. This is consistent with the approach that the Congress took with raising the increase of the total annual compensation limit for senior executives as part of the Homeland Security Act. The Congress may also want to consider providing guidance on the criteria that OPM should use in making judgments about individual agencies' performance management systems. We believe that the practices we described today could serve as a starting point for that consideration.

In summary, there is widespread agreement that the basic approach to federal pay is broken and we need to move to a more market- and performance-based approach. Doing so will be essential if we expect to maximize the performance and assure the accountability of the federal government for the benefit of the American people. Reasonable people can and will debate and disagree about the merits of individual reform proposals. However, all should be able to agree that a performance management system with adequate safeguards, including reasonable transparency and appropriate accountability mechanisms in place, must serve as the fundamental underpinning of any fair, effective, and appropriate results-oriented pay reform. The practices that have been used by leading organizations in developing and using their performance management systems to link organizational goals to individual performance and create a line of sight between an individual's activities and organizational results show the way in how to implement performance management systems with the necessary attributes.

Chairwoman Davis and Members of the Subcommittee, this concludes my statement. I would be pleased to respond to any questions that you may have.

Contact and Acknowledgments

For further information regarding this statement, please contact J. Christopher Mihm, Director, Strategic Issues, on (202) 512-6806 or at mihmj@gao.gov. Individuals making key contributions to this testimony included Anne Kidd, Janice Lichty, Lisa Shames, Marti Tracy, and Andrew White.

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