

**Testimony of**  
**Colleen M. Kelley**  
**National President**  
**National Treasury Employees Union**

**Before The**

**Subcommittee on Oversight of Government  
Management, the Federal Workforce and  
The District of Columbia**

**on**

**Alternative Personnel Systems:  
Assessing Progress in the Federal Government**

**September 27, 2005**

Chairman Voinovich, Ranking Member Akaka, other members of the Subcommittee, I appreciate the opportunity to provide you with the views of the frontline employees represented by NTEU at this important hearing on alternative pay systems in the federal government. I am grateful that the members of this Subcommittee, and particularly its leaders, have so much experience, knowledge and interest in efforts to make our federal government operate more effectively and efficiently for those it serves. NTEU wants to be a productive contributor to those efforts.

I would like to comment specifically about three alternative pay systems that NTEU has been involved with, the Federal Deposit Insurance Corporation (FDIC) system, which has been in effect for several years and the Department of Homeland Security (DHS) system, which is still in the implementation stage and the IRS system that right now only covers managers. But before I do that I have some broader comments I would like to share.

As we sit here today, our country is reeling from the effects of natural disasters in the Gulf Coast and from the perceived shortcomings in the federal government's response. Thousands of NTEU members have been deployed to perform disaster recovery related functions and thousands more have volunteered for assignments outside their regular duties. Like the millions of Americans who have been moved to contribute money and volunteer their time to help the

hurricane victims, they are motivated by a desire to help others. That is also a motivation for their choice to have a career in public service. I know this Committee is looking into what went wrong and what went right in response to Hurricane Katrina. That is a critically important undertaking, especially because of its impact on our capabilities to respond to other emergency situations. I would hope that in the Committee's review, it will hear from frontline employees.

I believe that factors such as the alternative personnel systems we are focused on here have a very small, if not negligible, impact on recruiting, retaining and maximizing the performance of federal employees. To quote Robert Behn, author and lecturer at Harvard University's John F. Kennedy School of Government, "Systems don't improve performance; leaders do." I believe that leadership that solicits, values and acts on the ideas of frontline employees in efforts to achieve agency missions is missing in many agencies today and I believe that providing that kind of leadership would do more to improve the quality of applicants and performance of employees than any of the alternative personnel systems we will discuss at this hearing. I know Mr. Chairman, that you are a believer in Total Quality Management. I believe there is a great need to institute that kind of employee involvement right now and I would submit that such an initiative would be successful in attracting, retaining and improving the

performance of federal workers and I would welcome the opportunity to work on such an initiative with you.

## FDIC

NTEU is the union for bargaining unit employees at the FDIC. We have bargained over compensation there since 1997. While we have serious concerns about the current state of the pay system at the FDIC, we strongly believe that in the absence of a statutorily defined pay system, like the GS system, pay should be subject to collective bargaining, as it is in the private sector. Especially in a government environment, employees and the public need a credible means of ensuring that pay is set objectively. That can be by statute, as the GS system, or by collective bargaining, but without one of these approaches, the system will lack credibility and be open to charges of subjectivity and favoritism. I believe FDIC management agrees that bargaining over compensation has been positive for the organization.

I believe that NTEU and FDIC management also agree that you have to have the money to reward good performance. As you know, guaranteeing that the money will be there to fund additional pay in a system reliant on Congressional appropriations is virtually impossible. It is only slightly more possible in a government corporation like FDIC, that is funded by fees.

A key area, however, in which NTEU is at odds with FDIC, is the current system to determine performance pay. While the FDIC itself has stated that, “more graduated levels of rewards are better than fewer levels,” it has dropped a multi-level performance evaluation system and moved to a pass fail system. Under this system employees who pass are eligible to be nominated by their supervisor for a pay increase known as a Corporate Success Award. Such increases are limited to one-third of the eligible employees and the standards for who get these increases are vague, subjective and not apparent to those covered by the system.

The arbitrary limitation on the availability of pay adjustments to just one third of the work force has demoralized and angered FDIC employees. Our members report that the system is divisive and discourages teamwork. It is discouraging employees from taking risks and sending the message that two thirds of the work force is not contributing.

With the elimination of the multi-level performance evaluation system, employees do not know what standards are being used to determine who gets the Corporate Success Awards. This lack of clear distinctions, coupled with the lack of transparency under the current system has caused employees to question its fairness. Hundreds of individual grievances have been filed alleging unfair pay determinations. The previous system at FDIC, based on multi-level performance evaluations, without arbitrary limits on the number of employees who could get

additional pay had credibility with employees. This system does not. I believe that is a major factor in the FDIC's ranking 25<sup>th</sup> out of 30 in the Partnership for Public Service's recent "Best Places to Work in the Federal Government" study.

### **DHS**

Holding down the 29<sup>th</sup> spot out of 30 in the "Best Places to Work" study is the Department of Homeland Security (DHS) where NTEU represents Customs and Border Protection employees. While the pay for performance system at DHS has not yet been implemented, we are very concerned that the implementation of the proposed system will push employees who are clearly already demoralized out of the agency when the importance of keeping experienced, skilled employees is greater than ever. One needs only to look at the virtually unanimous opposition to the proposed regulations in the over 3,000 comments submitted to see the extent of employee dissatisfaction with the DHS plan. Let me be clear, the employee opposition to the proposed DHS system is not about "fear of change," as some have tried to portray it. I know firsthand that this group of employees, entrusted with protecting our country from terrorists and other criminals, is not a fearful group. What they most object to about the proposed DHS system is that it will make it harder, not easier, to accomplish the critical mission of the agency.

There are several reasons for this: 1) The system is not set by statute or subject to collective bargaining as the FDIC's system is, so there is nothing to

provide it credibility among employees; 2) The system will have employees competing against each other over small amounts of money, discouraging teamwork, which is critically important in law enforcement; 3) The system is subjective, which will lead to at least the appearance of favoritism, which destroys esprit de corps; 4) The system is enormously complex with a virtually limitless number of pay differentials, the administration of which will require huge amounts of money that is so much more desperately needed in frontline functions, not to mention siphoning off money that could go for more pay in a less administratively burdensome system; 5) the consultant prepared draft competencies for the new DHS system do not recognize or reward the real work that these employees do to keep our country safe. When it is more monetarily beneficial to have “streamlined a process” (not that most frontline employees have the authority to do that) than to have stopped a terrorist from entering the country, we are engaged in an expensive and dangerous diversion from a critical national priority.

## **IRS**

While bargaining unit employees represented by NTEU are not covered by a paybanding performance based system at the IRS, managers are. I would like to comment briefly about that system. The Hay Group did a Senior Manager Payband (SMPB) Evaluation on this system for the IRS last year. (June 25, 2004) Here are some of the results: 1) 76% of covered employees felt the system had a

negative or no impact on their motivation to perform their best; 2) 63% said it had a negative or no impact on the overall performance of senior managers; 3) “Only one in four senior managers agree that the SMPB is a fair system for rewarding job performance or that ratings are handled fairly under the system;” 4) “Increased organizational performance is not attributed to the SMPB.”

The results of this system are dismal, yet it is pointed to as a model for moving the whole federal government to a similar system. In fact, there is a dearth of information to indicate that alternative pay systems have had any significant impact on recruitment, retention or performance. A GAO report on “Human Capital, Implementing Pay for Performance at Selected Personnel Demonstration Projects” from January 2004 (GAO-04-83) included virtually no evidence that the systems improved any of those measures. In fact, the Civilian Acquisition Personnel Demonstration Project reviewed in that report had as one of its main purposes, to “attract, motivate, and retain a high-quality acquisition workforce.” Yet, attrition rates increased across the board under the pay for performance pilot.

It is a mystery to me where the evidence is that these systems have produced successes to justify putting them in place throughout the federal government as called for in the Administration’s government wide proposal, Working For America, or WFA. We think the WFA would more aptly stand for, Won’t Fix America.

NTEU wants to be a productive participant in efforts to deliver the best government services to the public. We are not averse to change. We have welcomed, at FDIC and elsewhere, the opportunity to try new ways of doing things. After working as a frontline IRS Revenue Agent in Pittsburgh for 15 years and serving at NTEU for many years, including the last 6 as National President, these are the things I believe will have the most impact on the quality of applicants and the motivation, performance, loyalty and success of federal workers.

1) Leadership. As I said earlier, rules and systems don't motivate people. Leaders do.

2) Opportunities for employees to have input into decisions that affect them and the functioning of their agencies. They have good ideas that management is currently ignoring.

3) A fair compensation system that has credibility among employees, promotes teamwork and is not administratively burdensome.

Unfortunately, I do not believe the systems currently being pursued by the Administration follow these standards and I do not believe they will be successful. I urge the Members of this Subcommittee to closely review and analyze what data exists on current alternative personnel systems before moving to make them government wide. I don't think the evidence supports their use as successful

models. Thank you for this opportunity to share my views. I would be happy to answer any questions you may have.