U.S. Office of Personnel Management

Office of Merit Systems Oversight and Effectiveness

Special Study

Incentive Awards

FY 1996 - 1997

DALLAS OVERSIGHT DIVISION

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I. EXECUTIVE SUMMARY

This report summarizes the results of a two-year review of incentive awards programs in 15 agencies, conducted by the Office of Merit Systems Oversight and Effectiveness. The study focused on assessing the extent to which agencies' incentive awards programs are operating in accordance with merit system principles. The following are the key findings.

- Many of the incentive awards programs reviewed do not fully meet the expectations of the merit system principles, in spite of substantial expenditures of funds, high rates of employee recognition, and strong overall compliance with regulatory and procedural requirements.

- Recognition rates for the 15 agencies reviewed varied widely, suggesting that at the extremes some might have been over-rewarding their workforces while others were under-rewarding theirs.

- There are a variety of agency awards programs and approaches. This has allowed for creativity, as well as some possibly damaging inconsistency.

- Awards distributions show no evidence of inequities based on race, sex, national origin, or other non-merit factors.

- Lack of employee confidence in awards programs and uneven participation and funding levels are primary weaknesses of awards programs.

- There is little evidence that agencies pay attention to monitoring and evaluating award programs results.

- Most of the agencies reviewed reported being in various stages of exploring, designing, or preparing to make changes in their performance management and incentive awards programs.

- There is no identified need for regulatory change at this time.

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II. INTRODUCTION

Substantive changes in Federal regulations dealing with performance management and incentive awards became effective in September 1995. In keeping with National Performance Review (NPR)[1] recommendations, those changes provided agencies new flexibilities in designing and operating their performance management and recognition programs. Of key importance, the new regulations support agencies' increasing needs to recognize team accomplishments, to tie performance evaluation and rewards more closely to achievement of organization goals and, where desired, to "de-link" incentive awards decisions from dependence on annual performance appraisal processes.

Recognizing the changing landscape for incentive awards, the Office of Merit Systems Oversight and Effectiveness (OMSOE) included special coverage of incentive awards practices in its reviews of 15 Federal department and agency personnel management programs for FY 1996 and FY 1997. The objectives of this coverage were to determine:

- how well incentive awards programs are operating in accordance with, and in support of, merit system principles, as well as applicable Federal and agency regulations;
- what actions agencies are taking to improve their awards programs, and;
- whether any additional regulatory changes or OPM guidance are needed to further enhance awards programs Governmentwide.

MERIT SYSTEM PRINCIPLES AND EXPECTATIONS

The following merit system principles, codified in title 5, United States Code (U.S.C.), outline the intent of Federal incentive awards programs:

- "...appropriate incentives and recognition should be provided for excellence in performance."

  5 U.S.C. 2301 (b)(3)

- "All employees and applicants for employment should receive fair and equitable treatment in all aspects of personnel management without regard to political affiliation, race, color, religion, national origin, sex, marital status, age, or handicapping condition, and within proper regard for their privacy and constitutional rights."

  5 U.S.C. 2301 (b)(2)

Success in applying the merit system principles is evident when:

- management devotes appropriate resources to incentive awards;

[1] Name changed to National Partnership for Reinventing Government

- award decisions are based on excellence in employee performance;

  - employees have confidence that awards are distributed fairly,without regard to race, national origin, sex or other non-merit factors, and;

  - management gives priority to the integrity and effectiveness of awards program administration.

The findings and conclusions of this two-year study address how well these expectations are being met.

AGENCIES AND TIME PERIOD REVIEWED

- OMSOE teams looked at incentive awards programs and practices in the 15 departments and agencies listed below. Reviews involved nearly 200 site visits to agency headquarters, subordinate bureau/major command headquarters, and field installations.

Table 1
OPM AGENCY-FOCUSED REVIEWS

FY 1996	FY 1997
Deparment of the Treasury	Department of Agriculture (USDA)
Department of Justice (DOJ)	Department of the Army (AR)
Department of the Air Force (AF)	Department of Commerce
Department of State	Environmental Protection Agency (EPA)
Federal Emergency Management Agency (FEMA)	National Archives and Records Administration (NARA)
Equal Employment Opportunity Commission (EEOC)	National Aeronautics and Space Administration (NASA)
General Services Administration (GSA)	Department of Veterans Affairs (VA)
	Securities & Exchange Commission (SEC)

- Data and information collected during our reviews covered the FY 1995 and FY 1996 reporting periods. That is to say, OMSOE's FY 1996 review looked at awards data from FY 1995, and FY 1997 reviews looked at awards program activity for FY 1996. The program coverage we applied during FY 1996 reviews looked at selected incentive awards issues as part of a broader analysis of performance management programs. For the FY 1997 reviews, our program coverage was designed to provide a more indepth focus on incentive awards programs and practices.

AWARD CATEGORIES

This study centered on the following categories of awards:

Performance Awards - Cash awards that are based solely on employees' performance ratings of record assigned at the end of the appraisal period. These awards are intended to recognize sustained levels of successful performance over the course of the rating period.

Special Act or Service Awards - Are usually lump-sum cash awards that recognize specific accomplishments that are in the public interest and have exceeded normal job requirements. These awards can be for individual or group contributions. On-the-spot (OTS) awards are special act or service awards which normally provide immediate recognition for employees, are limited in amount, (e.g., $250 or less), and delegate award approval to first-line supervisors.

Quality Step Increases (QSI's) - Provide faster than normal progression through the step rates of the General Schedule. Unlike other forms of monetary recognition, QSI's permanently increase an employee's rate of basic pay. No more than one QSI may be granted to an individual employee in the same 52-week period.

Time-off Awards (TOA's) - The granting of time off without charge to leave or loss of pay to an employee as an individual or member of a group. The value of a TOA is time, not money. A TOA may not be converted to cash.

Other - Types of cash recognition, such as suggestion and invention awards, not included in the categories above.

DATA SOURCES

Review teams collected information about incentive awards programs, policies and practices through:

- data from the Central Personnel Data File (CPDF) and agency submissions;
- individual and group interviews with managers, supervisors, employees, program officials, and personnel staffs;
- questionnaire surveys administered to random samples of Governmentwide and individual agency employees, managers, and supervisors; and;
- reviews of selected individual award actions.

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III. FINDINGS

RESOURCES DEVOTED TO AWARDS PROGRAMS

One measure of success in applying merit system principles is whether management is devoting appropriate resources to incentive awards programs. In this regard, OPM review teams looked at how extensively agencies used awards of monetary value and how effectively they controlled awards spending. Although there is no established standard of adequacy by which agency awards activity and spending can be measured, the picture that emerges from agency-to-agency and Governmentwide comparisons is quite varied.

- Governmentwide data for FY 1995 and FY 1996 show relatively stable levels for monetary awards. The table below compares total awards granted to total employees for each year.

Table 2
GOVERNMENTWIDE RECOGNITION RATES

	FY 1995	FY 1996
# Monetary Awards*	1,808,408	1,604,955
Federal Workforce	1,960,000	1,890,000
Awards per Employee	.92	.85

* Includes performance, special act, QSI, “other” monetary, and time-off awards.

In spite of slight changes in the number of awards granted and in the size of the Federal workforce, the overall rate of recognition remained steady. There were about nine awards for every ten employees during both of the years reviewed.

- As shown in Table 3, which follows, the levels of awards program activity varied significantly among the 15 agencies reviewed (agencies are shown by an alphabetic code for purposes of anonymity). Recognition rates ranged from zero to about two awards per employee, and one agency doubled the Governmentwide rate. While some agencies (D, L, M, O) increased their recognition rates from FY 1995 to FY 1996, the overall trend was to provide awards at declining rates, and the agencies in our sample tended to make awards more conservatively than the Governmentwide norm. Two agencies (J and L) granted awards at rates equating to more than one award per employee in both fiscal years. Similarly, two agencies (M, and O) showed consistently low recognition levels in both years reviewed.

Table 3
RECOGNITION RATES IN AGENCIES REVIEWED BY OPM
(Ranked for each year by Awards per Employee)

FY 1995			FY 1996		
Agencies	**# of Awards***	**Awards per Employee**	Agencies	**# of Awards***	**Awards per Employee**
L	30,365	1.8	L	31,672	2.0
J	254,940	1.4	J	254,390	1.4
G	24,975	1.4	H	22,711	1.1
D	293,166	1.1	D	225,413	.9
H	21,304	1.0	**GOVTWIDE**	**1,604,955**	**.85**
K	136,499	.9	C	29,568	.8
GOVTWIDE	**1,808,404**	**.92**	B	2,736	.8
B	2,571	.8	F	2,292	.8
F	2,399	.8	K	119,142	.8
C	27,987	.8	E	175,356	.7
E	176,892	.7	A	51,083	.5
A	64,984	.6	I	43,211	.4
N	1,134	.4	G	6,475	.4
I	40,465	.4	M	4,040	.3
M	3,818	.2	O	3,041	.3
0	1,424	.2	N	3	0.0

(Source: CPDF) *Includes Performance, Special Act, QSI, Other Monetary and Time-off Awards

- Two agencies, G and N, experienced dramatic shifts in their recognition rates between FY 1995 and FY 1996. Agency N's zero recognition in FY 1996 was caused by top management's decision to suspend the agency's performance management and recognition program pending resolution of labor negotiations. The significant decline in Agency G's recognition rate was caused partly by delays in Congressional appropriations approval but, to a greater extent, by top management's effort to shift from the practice of granting many small-dollar awards to a new policy of giving fewer awards of high-dollar value.

- Spending levels for awards also varied substantially among the agencies reviewed. The Appendix to this report shows agency expenditures for the two most-often used types of awards, performance awards and special act/service awards, for FY 1995. This is the latest period for which OPM has received validated cost data from agencies. The rates of expenditures range from 2.2 percent of salaries (L) down to .18 percent (M).

- While causes for the wide variation in agency-wide spending for performance awards and special acts could not be firmly established, possible contributing factors to these differences include: inconsistent levels of awards program emphasis and support from department/agency/bureau headquarters; delays in appropriations bills; varying degrees of effort to reinvent and redirect awards programs trends away from historical patterns that heavily favored performance awards; and inadequate controls on/monitoring of awards spending.

- About half of the agencies reviewed exceeded the Governmentwide spending average of 1.01 percent of total salaries in FY 1995 (See Appendix). Agency L far exceeded the average, while Agencies I, N and M were at the opposite extreme. It is likely that Agency L's sheer volume of recognition (see Table 3) and a heavy concentration of that recognition (95%) in performance awards and special act awards (see Appendix) drove its comparatively high rate of expenditures. In contrast, Agency M's comparatively low rate of expenditures (.18%) may be an indication that most spending for awards is reserved for its large, title 5-exempt workforce. Agency I's low spending is likely a reflection of its comparatively low level of recognition overall, its low reliance on performance awards (30%), and its favoring of QSI's and time-off awards. Agency N's program, again, was on hold pending labor negotiations.

- Additional contributing factors to agency variation in awards activity come more into focus at subordinate organization levels, where OPM review teams found noticeable inconsistencies in awards funding guidance and practices between bureaus of the same department and between installations within the same bureau. Inconsistencies in awards "budgets," particularly at the installation level, have led to workforce perceptions of inequities between "rich" and "poor" organizations, between mission and administrative support organizations, and between organizations whose managers actively support and believe in incentive awards and those whose managers do not.

- Review teams found two key factors contributing to inconsistencies and workforce concerns at the installation level.

    - **Spending moratoriums.** A few installations had strict moratoriums in place on the use of cash awards as well as other spending. These moratoriums usually stemmed from overall budget constraints associated with downsizing, major reorganizations, contracting-out studies, uncertainty of Congressional appropriations, or other temporary conditions.

    - **Delayed funding allocations/guidance**. Some agency and bureau headquarters did not issue awards funding allocations or funding guidance until late in the fiscal year. The extent to which such delays were the common practice for an agency/bureau or reflected some unusual, one-time circumstance was not always clear. Since eventual funding levels and guidance could vary from year to year, local managers could neither effectively predict how much they would have to work with nor timely plan how they would use it. As a result, one installation, which had consciously set out to re-focus its awards practices on granting timely special acts throughout the year, was nevertheless forced to grant all awards at the end of the year because of delayed funding authorization.

- Funding uncertainties prompted some managers to view Quality Step Increases (QSI's) as their only viable alternative for recognizing deserving employees. These managers rationalized that QSI's would be paid for in their agency's overall employee compensation budget. In doing so, they failed to consider the long-term costs of QSI's.

- Review teams found several different approaches to funding awards and controlling award expenditures.

  - **Set dollar amounts**. Some agency/bureau headquarters designated specific dollar amounts in field installations' operating budgets for awards, with allocations usually based on workforce strength. Sometimes these allocations were included in organization budgets at the beginning of the fiscal year, but not made known until later in the year. Normally, award budgets approximated the previous fiscal year's awards funding, with some adjustments to account for known or anticipated changes, e.g., anticipated hiring.

  - **Standard formula**. Some agencies used a percentage of salaries to establish an installation's award budget. These formulas ranged from 1 to 2.5 percent of total base salaries, most often at 1 to 1.5 percent. There were variations to this approach.

    In some organizations, managers and supervisors had full discretion to determine, within their overall awards budget, the percentage(s) or dollar amount(s) they would grant for each individual award, including performance awards. In contrast, other agency/bureau or installation heads instructed that certain standard percentage rates of employees' basic pay be awarded for specific summary rating levels. The typical guideline was to grant two to three percent of basic pay for Outstanding (O) ratings and one to two percent for Exceeds Fully Successful (EFS) ratings, although a few installations also specified cash awards for Fully Successful (FS) ratings. One installation provided six, four, and two percent for "O," "EFS," and "FS" ratings, respectively. Another agency's policy put a different twist on this approach by awarding three percent and one percent of the *first step rate* in an employee's grade/pay range for "O" and "EFS" ratings, respectively.

    Some organizations established percentage limits on the rate of cash recognition overall (e.g., no more than seven percent of the workforce) or on certain types of cash awards. For example, one agency set QSI usage limits at not to exceed 10 percent of the workforce. One installation said no more than 17 percent of the workforce could receive performance awards; another restricted use of time-off awards and on-the-spot awards to 17 percent.

- **Gain/goal sharing**. A few installations had gain/goal sharing programs in place in which top management determined the total amount of available awards funding based on how well the installation met established production goals. If the goals were met, the awards fund was distributed as employee "bonuses." Usually every installation employee, regardless of position and grade, received an equal bonus amount in the form of a group special act award. OPM review teams cited these bonus programs as noteworthy practices. Managers and employees initially liked the approach because recognition is tied directly to organization/mission performance, but some problems have arisen, and opinions are now more mixed. For example, one installation failed to meet its annual goals and to award bonuses because its suppliers failed to meet their delivery milestones. Employees were disappointed and questioned the fairness of not receiving awards under these circumstances.

- **Funding from fees collected.** Some agencies reported that they fund their cash awards, at least partially, from user fees. Some supervisors and employees in one of these organizations expressed concern that this funding source could prove vulnerable if customers were to find out about the practice and pressure the agency to cut back on awards to reduce fees.

- **Discretionary funds**. In some agencies and bureaus, managers reported that they usually do not receive specific funding designated for awards, so they carve out what money they can for special acts or performance awards from discretionary funds in their operating budgets, such as funding available from hiring lags. Some supplemented that recognition with QSI's.

RECOGNIZING EXCELLENCE

A key measure of success in applying merit system principles is whether managers can demonstrate that their awards decisions are based on excellence in employee performance. OPM review teams asked managers how they define "performance excellence," reviewed samples of award actions to see how managers substantiated their decisions, and looked at relevant agency data. The findings in this area are mostly favorable.

- None of the agencies reviewed issued formal definitions of what constitutes "performance excellence." During interviews, managers and supervisors generally said they interpret "excellence" as performance that exceeds "satisfactory/fully successful" standards and contributes to improvements in organizational productivity and customer service, as well as to accomplishment of mission and organizational goals.

- Reviews of individual award actions showed that most were supported by brief statements of the basis for the award. Typically, this statement took the form of a cross-reference to a rating of record (at least Fully Successful or above) or a narrative describing accomplishments that exceeded performance standards and/or made significant contributions to specific organization goals/objectives.

- Three installations from different agencies, all using five-level performance rating systems, allowed performance awards of as much as two percent of base salary for individuals receiving Fully Successful ratings. While such practices are permitted under statute, review teams questioned whether this practice was consistent with the concept of sustained performance *excellence*, i.e., *above* satisfactory standards.

- Most of the agencies reviewed also used monetary awards to recognize short-term contributions and one-time special acts by employees. Normally, these awards were justified on the basis of determinations about the tangible or intangible benefits derived by the Government/agency from the employees' actions.

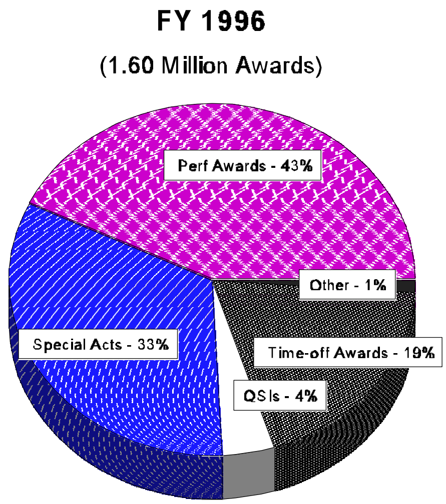
- All of the QSI's reviewed were cross-referenced to and supported by Outstanding performance ratings.

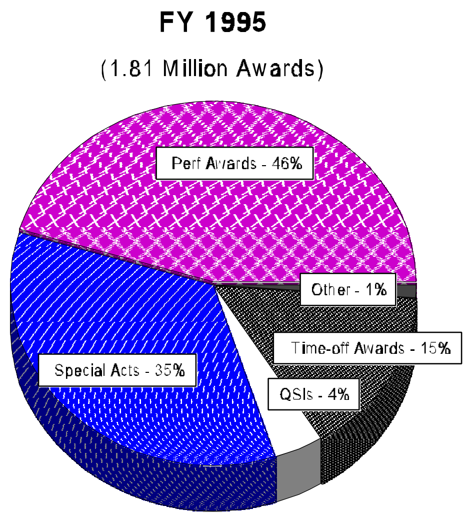
- Nearly all agencies and their field installations included non-monetary awards in their overall recognition programs. These awards, such as "employee of the year," honored individuals and groups for exemplary accomplishments or personal efforts that reflected high technical or professional competence, commitment to organizational values, enhancement of productivity, or improvements in customer service. Awards took the form of commemorative medals, certificates, cups, t-shirts, reserved parking privileges, and other inexpensive gifts.

- OPM found one agency's program of honorary awards to be particularly noteworthy. The program recognizes significant contributions in 10 different occupational and special focus categories (e.g., teamwork, customer service). This program is very popular with employees because it is highly competitive and includes peer nomination/ review and the public announcement of the winners at an annual agency awards ceremony.

- Governmentwide statistics appear to support managers' assertions that they rely on appraisal of performance against standards to recognize *"excellence."* The following graph shows that appraisal-driven performance awards were the most prevalent type of award Governmentwide in FY 1995 and FY 1996.

Graph 1
GOVERNMENTWIDE DISTRIBUTION OF AWARDS BY TYPE





- The statistics for most of the agencies covered in our two-year review period follow the Governmentwide norm. Table 4 depicts the agencies' FY 1996 awards distributions by award type. Performance awards were the most prevalent award in ten of the agencies and constitued over half of the awards given in six agencies. In addition, those agencies with overall recognition rates of .8 per employee and higher also tended to devote the largest portion of that recognition to performance awards, with three exceptions: Agencies J, H and L. Agency J used time-off awards and Agencies H and L used special act awards to a greater extent than they used performance awards.

Table 4
AGENCY AWARDS DISTRIBUTIONS - FY 1996
(Percentage Use by Award Type)

Agency/ Department	Total Awards	Award Rate per Employee	% Perf Awds	% Special Act/Svc	% QSI	% TOA	% Other
L	31,672	2.0	41%	54%	- 0 -	5%	1%
J	254,390	1.4	42%	3%	1%	52%	2%
H	22,711	1.1	40%	46%	5%	9%	1%
D	225,413	.9	45%	32%	7%	12%	5%
Govtwide	1,604,955	.85	43%	33%	4%	19%	1%
C	29,568	.84	63%	30%	5%	2%	.1%
B	2,736	.84	53%	47%	- 0 -	- 0 -	.1%
K	119,142	.81	64%	31%	2%	2%	.5%
F	2,292	.81	63%	10%	17%	10%	.1%
E	175,356	.7	39%	48%	1%	11%	1%
A	51,083	.5	25%	58%	6%	10%	.3%
I	43,211	.4	30%	32%	18%	19%	1%
G	6,475	.4	2%	40%	.6%	57%	- 0 -
M	4,040	.3	73%	15%	12%	- 0 -	- 0 -
O	3,041	.3	73%	- 0 -	- 0 -	17%	10%
N	3	.0	- 0 -	100%	- 0 -	- 0 -	- 0 -

- While it is true that performance awards are the largest manifestation of the Government's definition of performance "excellence," the suspicion that performance ratings automatically drive--and, because of ratings inflation, overdrive--the use of performance awards is not fully substantiated by data. Table 5 demonstrates that, for FY 1996, employee performance ratings in two-thirds of the agencies reviewed were even higher than the Governmentwide norm, including five which provided awards below the norm, i.e., Agencies I, F, G, M and O.

Table 5
AGENCY PERFORMANCE RATING TRENDS
(Percentage of Ratings Above Fully Successful)

AGENCIES	H	D	F	L	M	N	I	O	G	J
O & EFS RATINGS	94%	93%	93%	91%	91%	90%	89%	86%	85%	84%

GOVERNMENTWIDE - O & EFS RATINGS	*80%*

AGENCIES	B	K	A	C	E
O & EFS RATINGS	72%	72%	66%	59%	56%

- Also, if performance that was rated as “exceeding” standards was an automatic trigger for an award, agency appraisal-to-award ratios should approximate 1:1. However, as Table 6 shows, this is rarely the case.

Table 6
PERFORMANCE AWARDS COMPARED TO RATINGS ABOVE "FULLY SUCCESSFUL"

Agencies	FY 1996		
	Number of Performance Awards	Number of EFS & O Ratings	Awards/Ratings
C	18,621	15,740	1.18
O	2,217	1,893	1.17
L	12,924	13,946	.93
B	1,454	1,723	.84
K	76,439	96,908	.79
J	107,286	137,735	.78
E	67,836	89,783	.76
M	2,938	4,650	.63
F	1,441	2,292	.63
GOVTWIDE	**683,759**	**1,188,084**	**.58**
D	101,096	213,483	.47
H	9,022	18,648	.48
A	12,780	61,730	.21
I	12,972	59,062	.22
G	138	13,370	.01
N*	0	1,427	.0

* Did not distribute any performance awards during this period.

- Agency C's data is particularly notable in that its performance award recognition rate for FY 1996 (see Table 6) is the highest of the 15 agencies we reviewed, while its percentage of top performance ratings (see Table 5) is one of the two most conservative of the group. On the other hand, Agency D, with one of the richest appraisal patterns, shows a very conservative rating/award correlation. The data for Agencies L and J follow a correlated pattern: the percentage of top ratings was high and exceeded the Governmentwide average, and the percentage of performance awards was significantly greater than the Governmentwide average. Agency I shows a lower rate of performance award recognition than is suggested by its performance rating data, but, as previously noted, this is attributable to its significant use of QSI's.

WORKFORCE PERCEPTIONS/CONFIDENCE IN AWARDS

Programs successfully meet the intent of merit system principles when employees have confidence that awards are distributed fairly and without regard to race, national origin, sex or other non-merit factors. In this study, OPM review teams found a mostly skeptical workforce.

- Governmentwide and individual agency questionnaire results for FY 1997 reviews show that less than 40 percent of the Federal workforce believes that awards depend on how well one performs or that they distinguish the most deserving employees. Overall, supervisors' responses are somewhat more favorable than those of nonsupervisory employees. However, both groups agree that incentive awards are not motivating employees to do their best.

Table 7
FY 1997 QUESTIONNAIRE RESULTS - GOVERNMENTWIDE

	Nonsupervisors		Supervisors		Total Workforce	
	Agree	Disagree	Agree	Disagree	Agree	Disagree
Cash awards depend on how well employees perform their jobs.	37%	49%	52%	33%	39%	47%
Deserving employees are recognized and rewarded for their contributions.	34%	49%	55%	28%	36%	47%
Our performance award system acts as an incentive for employees to do their best.	28%	54%	28%	51%	28%	53%

- Questionnaire items used in the FY 1996 agency-focused reviews were structured somewhat differently than those in FY 1997 because the primary focus in FY 1996 was on agency performance managment programs. Still, as the summary data in Table 8 show, OPM review teams found a sizable portion of agency workforces in FY 1996 similarly questioning the effectiveness of both the performance management and recognition programs.

Table 8
QUESTIONNNAIRE RESPONSES - SUMMARY FOR FY 1996 REVIEWS

Total Workforce Views	Agree	Neutral	Disagree
In my organization, employees are rewarded in proportion to their actual job performance.	27%	19%	55%
The performance appraisal system in this agency motivates employees to perform well.	21%	24%	55%
Employees are adequately rewarded for superior performance.	36%	17%	47%
The performance management system provides data useful in making personnel decisions.	29%	37%	35%

- Interviews with over 2,200 employees and supervisors during our FY 1997 reviews revealed that concerns about awards effectiveness stem primarily from: (1) continued emphasis on use of performance awards that are linked to appraisal systems which are considered to be ineffective; and (2) inconsistencies between and within organizations in the way awards are funded and in the way individual award amounts are determined.
- During interviews, employees often complained that supervisors' varying performance rating styles (e.g., liberal versus conservative) and differing personal philosophies and biases regarding incentive awards were sources of inconsistencies and, thus, unfairness. Employees and supervisors alike expressed the opinion that managers were sometimes forced by headquarters-imposed restrictions and/or "quotas" to rotate award recipients from year to year, regardless of who were the most deserving. Many employees also viewed the lack of awards ceremonies and other publicity in their organizations as confirmation that the fairness and integrity of award decisions had been compromised.

- While some employees said non-monetary types of awards are not motivating, most expressed favorable opinions about them and considered some of the more competitive honorary awards, presented by top agency or bureau officials, to be quite appealing. During interviews, a few employees suggested that non-monetary awards should completely replace cash awards, based on the belief that employees should be sufficiently self-motivated to produce good work without having to resort to cash incentives. Some said that most employees are satisfied with just a simple verbal acknowledgement from managers of work well done.

- Except for occasional allegations that awards sometimes were given to avoid EEO complaints, employees and supervisors generally did not attribute their dissatisfaction to any perceived racial, ethnic or gender discrimination. OPM review teams, in fact, found that very few EEO complaints had been filed concerning incentive awards.

- In analyzing agency, bureau, and installation awards distributions, OPM review teams found little indication of differences based on race, sex, or national origin, and no evidence of bias.

- Some employee complaints about inequities were tied to unique work situations. A prime example was found in one agency whose employees work alongside, or in conjunction with, state and county employees. At some of the agency's sites, the cash award rate for the Federal workforce was said to be much lower than that of their state/county counterparts, causing much consternation among the Federal employees. The agency's workers also expressed concern that their awards funding was too dependent on the collection of user fees from customers and that customers might pressure management officials to reduce incentive awards expenditures so user fees could be lowered. Further, some of the agency's employees who work in administrative support functions thought that their supervisors were reluctant to grant awards because their organizations do not generate user fee revenue.

- Although interviews with employees revealed mixed opinions about almost every facet of incentive awards programs, there was noticeable agreement on certain things they *do* like. Their strongest preferences favored:

  - **peer involvement** in designing and evaluating awards programs, nominating individuals for awards, reviewing nominations, and recommending award amounts.

  - **special act/on-the-spot awards** (rather than performance awards), because they are more timely, document contributions to mission/organization goals more effectively, and are not susceptible to inflated appraisal ratings.

  - **group/team awards** (rather than individual recognition), where the predominant mode of getting the organization's work done is through formal and informal team configurations.

  - **standard formulas** for determining awards budgets and individual awards amounts. Although some disagreed, employees appeared to favor such standard formulas as a means of providing a *reasonable* level of consistency among and within organizations and reducing the influence of supervisors' varying personal biases or philosophies about awards programs.

  - **prestigious honorary (non-monetary) awards** to recognize extraordinary professional or personal efforts that best represent the organization's values and reflect great credit on the organization, its mission, and its workforce.

  - **public recognition/publicity** (e.g., awards ceremonies, agency newspaper articles about award recipients) to demonstrate management's support and confidence in the validity of the awards decisions, ensure recipients feel they have been appropriately recognized, and reassure other employees that deserving employees will be rewarded for high performance.

  - **oversight** through continual monitoring of awards practices and awards distributions by local incentive awards committees or human resource management staffs to help ensure consistency and fairness.

AWARDS PROGRAM ADMINISTRATION

A final measure of success in meeting the intent of the merit system principles is whether management gives priority to the integrity and effectiveness of awards programs administration. OPM review teams explored the extent to which top managers are personally involved in and have devoted resources to effective program design, direction, management and oversight. They found varying degrees of success.

- None of the agencies reviewed had made any major structural changes to their performance management or recognition programs. However, they are apparently receptive to the 1995 regulatory changes because many report that they are in the process of exploring, designing, or preparing for imminent implementation of major structural changes. Several agencies stated their intent to convert to either two-level (pass/fail) or three-level appraisal systems. Primary objectives in this regard are to: (1) simplify performance management and (2) facilitate the de-linking of awards from the annual appraisal process.

- In some instances, management has established special project teams to analyze the strengths and weaknesses of their current awards programs, survey workforce opinions, and research alternative system/program designs. Most of the agencies OPM reviewed have included good representation of supervisors, employees and, in some cases, union representatives on their project teams.

- One of the most consistent weaknesses in awards programs administration is the lack of effective program evaluation. Few agencies, bureaus, or installations are actively tracking and analyzing meaningful demographic data on awards distributions. Further, some who are collecting data do not regularly provide that information to key managers, incentive awards committees, or others (e.g., employees and supervisors) with a vested interest in the effectiveness of incentive awards programs. OPM review teams found that the best efforts in this regard were typically associated with top managers who took an active personal interest in and strongly supported incentive awards programs.

- A few installations have established local incentive awards committees. These committees are variously staffed with key managers, supervisors, and employees. Committee roles varied from one installation to another and included such functions as review and approval (or recommending approval) of award nominations, analysis of local awards program issues, providing direction to special project teams exploring program improvements, and in rare instances, conducting (or overseeing) periodic evaluations of program effectiveness.

- Even where funding allocations for awards are substantial and timely, agencies do not consistently provide adequate monitoring or control the efficient use of those resources. Review teams found some key examples of ineffective control.

  - **QSI's**. Although QSI usage rates were low at most installations visited (i.e., ranging from zero to 5 percent, with a Governmentwide rate of about 4 percent), there were some notable exceptions. A few installations reached QSI usage rates as high as 18 percent. Two agencies established specific percentage "limits" (10 and 25 percent, respectively) on the use of QSI's. But rather than being used as top management intended (to discourage excessive use), the "limits" were treated instead as goals by some subordinate organizations. For example, two major sub-elements of one of the agencies reached QSI rates of 16 and 18 percent, while the agency-wide rate was 7.4 percent. OPM estimates that QSI's, alone, cost one of the agencies $1 million and the other $.65 million in FY 1996. As described earlier, managers sometimes do not fully consider the long-term costs of QSI's.

- **Time-off awards (TOA's)**. As with QSI's, managers did not always consider the full resource implications of TOA's. During our review period, many agencies were still gaining familiarity with TOA's. However, one agency was a notable exception: this agency accounted for almost 40 percent of the Government usage of TOA's in FY 1995. OPM review teams found that many agency managers wholeheartedly embraced the use of TOA's to give their entire staffs "days off" in recognition of certain organizational achievements or special events. This questionable practice resulted in usage rates that equated to approximately 80 percent of the agency's employees receiving a TOA in both FY 1995 and FY 1996. The statistics were even more problematic when OPM looked behind them and discovered that TOA usage was concentrated in several activities and major organizations: some facilities actually awarded numerous days off to their entire workforces. OPM estimated that TOA's had cost the agency $19 million in salaries and 500 lost workyears in FY 1995 alone. Agency officials were advised that their practice was not consistent with the intent of the merit system principles, and the practice has since been discontinued.

ADHERENCE TO FEDERAL AND AGENCY REGULATIONS

- Overall, OPM's reviews show there is strong adherence to Federal and agency requirements in the use of awards. Table 9, below, shows the results of our FY 1997 reviews of over 2,400 individual award actions.

- One of the best compliance rates was found in the use of QSI's. This is a significantly positive finding, considering that QSI's produce higher, long-term costs to the Government than other types of awards.

Table 9
REGULATORY/PROCEDURAL COMPLIANCE BY AWARD TYPE

	# reviewed	# and (%) compliance with Agency Regs	# and (%) compliance with 5 CFR 451
Perf Awards	653	628 (96%)	624 (96%)
Special Acts	743	707 (95%)	698 (94%)
QSI's	437	433 (99%)	429 (98%)
TOA's	496	487 (98%)	466 (94%)
Other	107	107 (100%)	107 (100%)
Totals	2,436	2,362 (97%)	2,324 (95%)

- The most common errors found, by type of award, were:

  - **Performance awards** - inclusion of locality pay (rather than basic pay only) in calculating award amounts;

  - **Special acts** - (1) missing documentation/justifications, (2) award amounts exceeding agency limits without explanation/justification;

  - **QSI's** - (1) receipt of two QSI's within the same 12-month period, (2) receipt of QSI's within a short time before or after a promotion (contrary to agency/bureau policy);

  - **TOA's** - (1) failure to document the justification for the amount of time off granted, (2) use of TOA's solely to recognize length of service, (3) use of TOA's to provide "days off" to entire workforces, (4) receipt of a TOA and a performance award or QSI for the same rating period, violating agency policy, (5) failure to document the number of hours granted.

  - **All types** - retroactive effective dates, i.e., prior to the date of signature of the final approving authority.

- Review teams also discovered that agencies have not always ensured that "due weight" is given to awards when considering employees for promotion. Such consideration is required by Federal law (5 U.S.C. 3362) and usually is applied in the evaluation of candidate qualifications and/or in the selection process. Reviews of individual competitive promotion actions, however, found some instances where there was no documentation that confirmed candidates' previous awards had been considered in any manner.

- Errors in the coding of award actions and improper filing of supporting documentation in official personnel folders surfaced sporadically.

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- Review teams found no evidence that errors stemmed from any conscious efforts to abuse the awards program or violate merit system principles. Instead, inattention to details, inadequate supervisory training, and insufficient procedural controls and oversight were the chief causes.

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IV. CONCLUSIONS AND IMPROVEMENT STRATEGIES

Conclusions

- Many awards programs are not fully meeting the expectations of the merit system principles because they: (1) do not enjoy the confidence of large segments of the workforce, and (2) suffer from inconsistencies in funding and funding practices.

- Much of the employee discontent can be traced to agencies' heavy reliance on performance appraisals for awards. Awards programs are therefore tarnished by the workforce's general disillusionment over the performance appraisal process.

- The agencies reviewed had not yet taken advantage of regulatory changes to implement major structural changes in their incentive awards programs, although most appeared to be on the verge of doing so. Data trends suggest, albeit ever so slightly, that a few agencies may already be shifting their focus away from performance awards.

- Current regulations appear to provide the flexibility agencies need to design a variety of incentive awards programs. However, agencies should be encouraged to more systematically monitor and evaluate the effectiveness of awards programs and policies.
- Abuse of the merit system principles regarding awards is rare. However, there are instances of well-intentioned misuse of awards (e.g., granting installation-wide time off) and questionable practices (e.g., generous awards for "Fully Successful" performance) that could embarrass the Government and that should be avoided.

Strategies for Improvement

We recognize that the various redesign efforts that most of the agencies reported to have in progress at the time of this review may already be addressing the issues and concerns raised in this report. We offer the following suggestions to further assist those efforts and to help those agencies that are just beginning to contemplate program changes.

Strategies for Departments and Agencies

- Strive to consistently link performance recognition programs and decisions to strategic plans, goals, and results, as contemplated by the Government Performance and Results Act.

- Consider establishing balanced, flexible recognition programs that feature a variety of group and individual awards, rather than focusing on one or two types of awards.

- Consider making more use of competitive and prestigious nonmonetary (honorary) awards, with provisions for peer nomination and peer involvement in deciding award recipients.
- Improve publicity of individual award recipients and of awards program activity.

- As soon as practicable at the beginning of each fiscal year, publish and disseminate to all organization levels annual awards policies, expectations and funding guidance for the year.

- Consider the employee concerns identified in this report when developing policies related to consistency in award practices and funding.

- Establish accountability systems to monitor adherence to awards policies and expectations, to spot problem trends, and to identify opportunities for program improvement.

Strategies for OPM

- Publicize the key findings and recommendations of this review so that all agencies can benefit.

- Conduct at least two annual questionnaire follow-up inquiries with the 15 agencies reviewed in this study to monitor their redesign progress and to capture their “lessons learned” and success stories for appropriate publication to all Federal agencies.

APPENDIX

AGENCY AWARDS EXPENDITURES - FY 1995
Performance Awards and Special Act/Service Awards

AGENCY	# PERF AWARDS	# SPEC ACT AWARDS	TOTAL # AWARDS	$ PERF AWARDS (In millions)	$ SPEC AWARDS (In millions)	$ TOTAL AWARDS (In millions)	% OF TOTAL SALARIES	$ AVG AWARD (Combined)	$ AVG PERF AWARD	$ AVG SPEC AWARD
L	14,192	14,441	28,633	$9.7	$5.7	$15.4	2.20	$538	$688	$400
G	10,175	9,619	19,794	$8.5	$5.8	$14.3	1.52	$726	$841	$605
C	18,450	7,949	26,399	$18.8	$4.0	$22.8	1.48	$901	$1,023	$505
B	1,343	1,215	2,558	$0.8	$0.4	$1.2	1.45	$480	$603	$299
D	103,983	137,725	241,708	$98.5	$29.1	$127.6	1.44	$528	$948	$211
F	1,505	229	1,734	$1.5	$0.3	$1.8	1.21	$1,059	$1,032	$1,341
K	87,763	44,147	131,910	$56.2	$15.0	$71.2	1.18	$540	$641	$340
J	98,696	15,310	114,006	$59.0	$2.9	$61.9	1.11	$543	$598	$192
GOVTWIDE	830,838	625,319	1,456,157	$587.4	$189.6	$777.0	1.01	$534	$707	$192
H	8,255	8,874	17,129	$7.8	$3.8	$11.6	.93	$678	$943	$428
E	82,065	79,574	161,639	$47.2	$14.4	$61.6	.71	$381	$576	$181
A	14,588	42,565	57,153	$10.3	$15.1	$25.4	.68	$445	$703	$353
O	947	35	982	$1.1	$0.07	$1.2	.55	$1,222	$1,152	$1,803
I	12,150	14,396	26,546	$9.1	$5.9	$15.0	.35	$570	$756	$410
N	87,763	1,132	1,132	$0.0	$0.40	$0.40	.26	$310	$0	$310
M	2,862	449	3,311	$1.2	$0.30	$1.50	.18	$453	$425	$601

(Source: Agency annual awards reports)