
Office of Inspector General

Audit Report

**Personnel Reform: Recent Actions Represent
Progress But Further Effort Is Needed To Achieve
Comprehensive Change**

Federal Aviation Administration

**Report Number: AV-1998-214
Date Issued: September 30, 1998**





Memorandum

**U.S. Department of
Transportation**
Office of the Secretary
of Transportation
Office of Inspector General

Subject: **ACTION:** Report on Personnel Reform:
Recent Actions Represent Progress But Further Effort is
Needed to Achieve Comprehensive Change,
Federal Aviation Administration, AV-1998-214

Date: September 30, 1998

From: 
Kenneth M. Mead
Inspector General

Reply to
Attn Of:

To: Federal Aviation Administrator

This summarizes our audit results on the Federal Aviation Administration's (FAA) progress in implementing personnel reform. We are providing this report for your information and use. An executive summary of the report follows this memorandum.

During our audit, we periodically met with members of your staff, including the Assistant Administrator for Human Resource Management, regarding the issues identified during our audit and have taken their comments into consideration in preparing this report. In addition, you were provided an advance copy of the report and your comments of September 29, 1998, were helpful in preparing this report. We modified our first recommendation dealing with the budgetary impact of the new pay systems by including a provision that productivity gains should be taken into account in offsetting workforce cost increases.

In accordance with Department of Transportation Order 8000.1C, we would appreciate receiving your written comments within 30 days. If you concur with our findings and recommendations, please indicate for each recommendation the specific action taken or planned and the target dates for completion. If you do not concur, please provide your rationale. Furthermore, you may provide alternative courses of action that you believe would resolve the issues presented in this report.

We appreciate the cooperation and assistance provided by you and your staff during the audit. If you have any questions or need further information, please contact me at x61959 or Alexis Stefani, Deputy Assistant Inspector General for Aviation, at x60500.

Attachment

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EXECUTIVE SUMMARY

***Personnel Reform:
Recent Actions Represent Progress But Further Effort Is
Needed To Achieve Comprehensive Change.***

Federal Aviation Administration

Report No. AV-1998-214

September 30, 1998

Objectives and Scope

The objectives of our audit were to (1) identify the Federal Aviation Administration's (FAA) progress in implementing a new personnel management system that addresses FAA's unique demands in the hiring, training, compensation, and location of personnel; and (2) identify what factors, if any, may be impeding FAA's progress. The audit was conducted between November 1997 and August 1998 in FAA's Air Traffic Services and Research and Acquisitions lines of business¹, which represent approximately 77 percent of FAA's workforce.

An advance copy of this report was provided to FAA on September 25, 1998, and the agency's comments are summarized on page xv of this Executive Summary.

Background

In September 1993, the National Performance Review (NPR) concluded that Federal budget, procurement, and personnel rules prevented FAA from reacting quickly to the needs of the air traffic control system. In 1994, building on the concerns raised by the NPR, Congress directed the Secretary of Transportation to undertake a study of management, regulatory, and legislative reforms that would enable FAA to provide better air traffic control services without changing FAA's basic organizational structure.

The resulting report to Congress (issued in February 1995) found that existing Federal personnel rules and procedures were rigid, complex, and over-proceduralized, limiting FAA's ability to attract and retain qualified staff at key

¹ FAA is composed of six separate organizations or lines of business: Air Traffic Services, Research and Acquisitions, Regulation and Certification, Civil Aviation Security, Airports, and Commercial Space Transportation.

EXECUTIVE SUMMARY

facilities or to reassign employees in response to changing needs. The report also found that the Federal performance management system limited the ability of managers to reward their best employees or discipline problem employees, and that training programs provided standard training regardless of the skills, training, and experience employees already had. The report concluded that the most effective internal reform would be to exempt FAA from all Federal personnel rules and procedures.

On November 15, 1995, Congress, in making appropriations for the Department of Transportation and related agencies for the fiscal year (FY) ending September 30, 1996, directed the FAA Administrator to develop and implement a new personnel management system to take effect April 1, 1996. The law exempted FAA from most provisions of Title 5 of the United States Code and other Federal personnel laws². The law required that FAA's new personnel management system address the unique demands of the agency's workforce, and, at a minimum, provide greater flexibility in the

- ✓ hiring,
- ✓ training,
- ✓ compensation, and
- ✓ location of personnel.

The Federal Aviation Reauthorization Act of 1996 placed additional requirements on FAA by requiring that any changes made to FAA's new personnel management system be negotiated with the agency's unions. Accordingly, issues that were previously not negotiable (such as staffing and compensation) became subject to negotiation.

Results in Brief

At the onset of personnel reform, FAA's efforts focused on developing a framework for future reform. On April 1, 1996, FAA introduced its new personnel management system: a set of new personnel policies and procedures specific to FAA for hiring, training, compensating, and locating its workforce more effectively. The new system delegated significant authority to FAA's lines of business to develop human resource policies unique to their missions

² Congress did not exempt FAA from provisions of Title 5 pertaining to veterans' preference; antidiscrimination; Federal retirement, unemployment and insurance coverage; and limitations on the right to strike.

EXECUTIVE SUMMARY

and goals. For example, FAA granted the lines of business authority to develop specialized pay plans to meet their unique needs.

Recent Progress in Compensation Issues. Recent actions taken by FAA represent important progress in addressing compensation-related issues. First, FAA has reached a new collective bargaining agreement with its largest union, the National Air Traffic Controllers Association (NATCA) (representing approximately 15,000 air traffic controllers), which contains several key reform provisions, including a new pay system for air traffic controllers. Second, FAA has implemented its first pilot program for testing the agency's core compensation plan within the Research and Acquisitions line of business³ (affecting approximately 1,200 non-union and executive employees).

The new agreement with NATCA and the pilot program replace many of the rigid and complex Federal personnel rules and requirements with performance-based pay systems tailored to the unique needs of those lines of business. For example, provisions of the NATCA agreement are designed to allow FAA greater flexibility in attracting and retaining qualified personnel at key locations by basing controller pay on the complexity of the operations they manage as well as the volume of air traffic they control. Likewise, provisions of the compensation pilot program within the Research and Acquisitions line of business replace automatic pay increases (such as within grade steps and cost of living adjustments) with merit pay increases based on achievement of individual and organizational performance goals linked to FAA's strategic plan.

However, the effectiveness of these programs in improving organizational and individual performance and accountability (key tenets of reform) have yet to be determined. More importantly, FAA has not identified the specific results it expects to achieve from these programs. Consequently, FAA will not be able to accurately demonstrate how potential cost increases associated with the new systems will ultimately benefit its operations or the users of the National Airspace System. FAA will need this information in order to demonstrate to Congress and FAA's stakeholders that the programs were indeed effective in resolving the original problems that led to reform.

Risks Involved. The NATCA agreement and the pilot program represent important progress in personnel reform; however, there are risks involved. The costs associated with these programs, particularly the new Air Traffic pay

³ The Research and Acquisitions line of business is responsible for research, design, development, acquisition, and implementation functions that support the National Airspace System.

EXECUTIVE SUMMARY

systems, will be significant. FAA estimates that the new pay system for controllers will require an additional \$860 million over the next 5 years. Further, a proposed similar pay system for Air Traffic managers and supervisors could require an additional \$260 million over the same period. In total, FAA estimates that the new pay system for controllers and supervisors may require an additional \$1 billion over current payroll costs during the next 5 years.

FAA faces significant risks in meeting these workforce cost increases while, at the same time and within the projected revenue base, funding other critical agency requirements (such as modernization of the National Airspace System and the Airport Improvement Plan). These risks must also be considered in the context of other compensation programs being developed in current negotiations with FAA's two other largest national unions. FAA believes that these risks could be mitigated by offsetting productivity gains included in the agreement such as eliminating alternate work schedules, expanding controller duties, introducing incentives to reduce controller sick leave usage thereby reducing unscheduled overtime, and reducing official time for union representation.

In our opinion, it is important that FAA quantify, to the extent practical, productivity gains included in the NATCA agreement as well as other potential offsetting savings that will be used to offset the cost increases associated with the new pay system. Accordingly, we are recommending that FAA report to Congress and the Secretary of Transportation proposed additional revenue, savings and productivity gains, and budget reductions that will be used to accommodate or otherwise offset workforce cost increases associated with the new pay systems over the next 5 years (the duration of the NATCA agreement).

FAA must also determine the total costs and potential productivity gains of the compensation pilot program within the Research and Acquisitions line of business, and incorporate an effective and efficient means for addressing employees who are consistently unable to achieve performance goals. Further, although executive bonuses under the pilot program are based on achieving short-term incentive goals, these goals have not yet been approved for the organization's executives.

Limited Progress in Other Areas. While the NATCA agreement and the pilot compensation program represent important steps in FAA's personnel reform efforts, they affect only 33 percent of FAA's workforce and address primarily

EXECUTIVE SUMMARY

compensation-related issues. Further effort will be needed by FAA to address compensation issues in other workforces and to resolve other significant issues in hiring, training, and location of personnel. Although FAA has taken some steps to address these issues (such as reducing the number of position descriptions), we found that key reform initiatives affecting hiring, training and location of personnel remain in development or have been only partially implemented by FAA's lines of business. For example, although FAA granted the lines of business flexibility to use various options when hiring new employees, Air Traffic Services has not implemented these flexibilities for its workforce. Air Traffic facility managers told us that they were still restricted to hiring applicants using existing Office of Personnel Management (OPM) procedures.

Agencywide employee surveys also noted a lack of progress by FAA in addressing hiring, training, and relocation throughout the agency. For example, in FAA's 1997 Employee Attitude Survey over 46 percent of the 25,000 management and non-management employees responding stated that personnel reform had not improved their ability to do their jobs. Although the survey was conducted before implementation of the pilot program or completion of the NATCA agreement, the results clearly demonstrate that further effort is needed to achieve the type of flexible personnel management system envisioned by Congress and the NPR.

Further Efforts Needed. Although each of FAA's six lines of business have flexibility in designing human resource systems unique to their needs, FAA has not established specific milestones and goals for implementing key initiatives within the lines of business, or held the lines of business accountable for their progress. Accordingly, FAA must clearly define the authority and responsibility for its personnel reform efforts. FAA will also need to make more effective use of pilot programs for testing key initiatives in other workforces and develop a framework for facilitating future negotiations with its seven national unions concerning agencywide issues.

FAA's future reform efforts will also depend on the agency's ability to acquire or develop the management tools necessary to achieve and measure comprehensive change. For example, FAA's existing automated personnel and payroll system is not capable of processing multiple compensation systems with different pay provisions and requirements. Further, FAA will need to identify the expected outcomes of new initiatives and develop systems for accumulating the data necessary to accurately assess the success or failure of its personnel reform efforts.

EXECUTIVE SUMMARY

Principal Findings

Recent Actions Taken by FAA Represent Important Progress But Several Significant Concerns Will Need to be Addressed.

Approximately 3 years after being given the authority to reform its personnel management system, FAA initiated two compensation systems affecting 33 percent of its workforce. However, FAA faces several challenges in implementing the new systems, particularly in determining the means for funding the significant cost increases associated with the NATCA agreement without affecting other critical missions.

The NATCA Agreement. FAA and NATCA recently reached a new collective bargaining agreement. The agreement (which covers 15,000 controllers and became effective September 15, 1998) contains several personnel reform related provisions. For example, one key provision of the agreement establishes a new pay system for air traffic controllers based on reclassifying air traffic facilities. Under the new pay system (which will become effective October 1, 1998), FAA has reclassified each air traffic facility into new Air Traffic Control Grades with corresponding pay bands ranging from \$33,320 to \$118,069⁴. The new system should allow FAA to attract and retain qualified personnel at key locations by basing controller pay on the complexity of the operations they manage as well as the volume of air traffic they control. FAA is also developing a similar pay program for Air Traffic supervisors and managers. Under the new supervisory program, which is based on the NATCA agreement, managers and supervisors could potentially make 10 to 20 percent more than controllers at their assigned facility.

The NATCA agreement also includes changes in work rules that should produce productivity gains by enhancing system efficiency. For example, provisions of the agreement eliminate alternate work schedules (such as 4-day work weeks) at all 24-hour facilities and allow managers to assign controllers collateral duties (such as training, briefing, and quality assurance) when not controlling air traffic. Another provision of the agreement will decrease the current number of first line supervisors by one-third and make more extensive use of nonsupervisory controller-in-charge positions.

⁴ These annual salary figures do not include locality pay, cost of living differential, or premium pay (such as overtime and night differential), which controllers will continue to receive in addition to base pay.

EXECUTIVE SUMMARY

Determining the means for funding the NATCA agreement without affecting other critical missions will be a significant challenge for FAA. FAA estimates that the new pay system for controllers will require an additional \$860 million over the next 5 years. Further, the proposed similar pay system for Air Traffic managers and supervisors may require an additional \$260 million over the same period. In total, FAA estimates that the new pay system for controllers and supervisors, less estimated cost savings, such as reducing the number of first line supervisors, may require an additional \$1 billion over current payroll requirements during the next 5 years. This problem could be further compounded if similar pay programs are developed in current negotiations with FAA's two other largest national unions⁵. FAA believes this problem could be mitigated by offsetting productivity gains included in the agreement such as eliminating alternate work schedules, expanding controller duties, introducing incentives to reduce controller sick leave usage thereby reducing unscheduled overtime, and reducing official time for union representation. However, those productivity gains have not been quantified by FAA.

In the House of Representatives Report on the Department of Transportation and Related Agencies Appropriations for FY 1999, Congress directed FAA to report by December 31, 1998, which programs and activities were reduced or deferred in FY 1999 to finance the new pay system. However, to determine the potential impact of the agreement on other critical missions, we are recommending that FAA report to Congress and the Secretary of Transportation all proposed budget reductions, savings, and additional revenue that will be used to accommodate or otherwise offset workforce cost increases associated with the new pay systems over the next 5 years.

The Research and Acquisitions Pilot Program. On July 19, 1998, FAA initiated an 18-month pilot program of its core and executive compensation programs within the Research and Acquisitions line of business. The pilot program, which covers about 1,200 non-bargaining-unit employees and 35 executives (approximately 60 percent of the Research and Acquisitions workforce), is designed to improve organizational performance and the agency's ability to attract and retain critical skills. Key aspects of the pilot program include relaxing the rigid rules for setting pay and establishing a means for linking pay to performance. The pilot program replaces the 15-grade Federal general pay schedule with 12 pay bands based on comparable salaries

⁵ FAA is currently negotiating new collective bargaining agreements with the Professional Airways Systems Specialists union and the National Association of Air Traffic Specialists who collectively represent approximately 13,500 FAA employees.

EXECUTIVE SUMMARY

in the private sector. It also replaces automatic pay increases of the Federal pay system (i.e., within grade steps and cost of living adjustments) with pay increases based on how well employees achieve both individual and organizational performance goals linked to FAA's strategic plan.

FAA will need to address several concerns regarding the pilot program. For example, while the pilot program has provisions for rewarding superior employee performance, there are no corresponding provisions for addressing employees who do not achieve performance goals, other than procedural guidance for issuing disciplinary actions (e.g., 30 days written notice, employee response periods, appeal rights).

Further, FAA has not identified the specific productivity gains that will offset potential increases in payroll associated with the pilot program. Although FAA requires that the potential cost increases of new initiatives be offset by corresponding gains in productivity and new efficiencies, this is not realistic since employees can earn significantly more money under the pilot program. For example, under the general pay schedule, a GS-15 can earn up to \$94,247 (excluding locality pay) while the same individual can earn up to \$122,500 under the pilot program.

OPM has found that Federal Demonstration Projects⁶ similar to the Research and Acquisitions pilot are inherently not budget neutral and has accordingly dropped this requirement as a prerequisite for new Demonstration Projects. FAA should reconsider its requirements for budget neutrality and instead develop realistic cost projections and estimated productivity gains for all proposed pilot programs in order to monitor and control costs against a predetermined budget.

Further Effort Is Needed to Address Compensation Issues in Other Workforces and Resolve Problems in Hiring, Training, and Location of Personnel.

While the NATCA agreement and the pilot compensation program represent important steps in FAA's personnel reform efforts, they affect only 16,200 FAA employees (approximately 33 percent of FAA's workforce) and address primarily compensation-related issues. Further effort will be needed to

⁶ The Civil Service Reform Act of 1978 granted OPM the authority to conduct Demonstration Projects within Federal agencies to determine whether a specified change in personnel management policies or procedures would result in improving personnel management.

EXECUTIVE SUMMARY

address compensation issues in the remainder of FAA's diverse workforce: FAA has approximately 49,000 employees in 6 lines of business and staff offices represented by 7 national unions. More importantly, FAA will need to resolve other significant issues in hiring, training, and location of personnel. As illustrated in the following examples, we found that key reform initiatives addressing those issues remain in development or have been only partially implemented by FAA's lines of business.

- ✓ ***Hiring (Increased Hiring Flexibilities)***. FAA granted the lines of business the flexibility to use various options when hiring new employees. For example, the lines of business can now use (1) announced vacancies (announcing a vacant position either locally or nationally to solicit applications and obtain the best available candidates), (2) on-the-spot hiring (targeting individuals for hard-to-fill positions or facilities), and (3) central registers (lists of pre-screened, highly qualified applicants). However, Air Traffic Services has not implemented these flexibilities for its workforce. Air Traffic facility managers told us that they were still restricted to hiring applicants using existing OPM procedures.

- ✓ ***Training (Reduced Redundant Training)***. FAA provided the lines of business flexibility to design screening tests to ensure that new employees have the required skills thereby eliminating the need for basic training courses that were redundant for some employees. Airway Facilities has designed the Basic Electronic Screening Test, which will be used to ensure that potential candidates possess the basic electronics knowledge and background needed to qualify for maintenance technician positions. However, implementation of the test was stopped due to objections from employee associations about potential hiring disparities that could result from using the test. After examining the potential disparities, FAA is tentatively planning to begin using the test on October 1, 1998.

- ✓ ***Location (Travel Program Changes)***. FAA developed 18 travel reform initiatives covering temporary duty travel, extended stays, and permanent change of station moves. The travel initiatives were approved by the Administrator as early as April 1997, but the agency chose not to implement these initiatives until they could be negotiated with all the agency's unions. Although the recent agreement between FAA and NATCA contains some of the travel reform initiatives such as reimbursing employees a flat rate for lodging while on temporary duty travel, other unions have not yet agreed to similar proposals. FAA may (pending

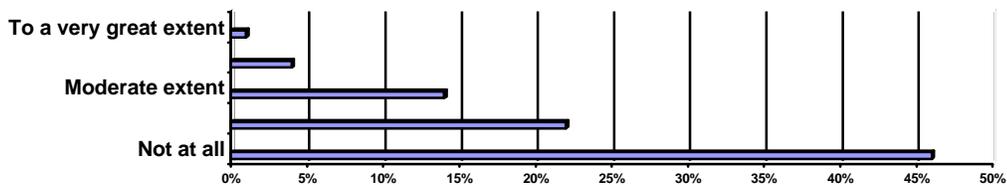
EXECUTIVE SUMMARY

approval of the Administrator) begin testing these initiatives using limited workforces but has not established any timeframes for implementation.

Agencywide employee surveys also noted a lack of progress by FAA in addressing hiring, training, and relocation throughout the agency. For example, in a January 1998 interim evaluation report conducted by the Human Resource Research Organization (HumRRO)⁷, the perception among FAA managers agencywide was that reform has had little impact on their ability to hire, train, or relocate personnel more effectively. Of the 193 managers that responded to the HumRRO survey, over 41 percent indicated that they had not had the opportunity or occasion to use new flexibilities since implementation of personnel reform. Further, over 43 percent cited specific limitations by their lines of business as the primary reason for not using the new flexibilities.

FAA's 1997 Employee Attitude Survey found similar perceptions among the 25,000 management and non-management FAA employees responding to the survey. As shown in the following chart, when asked to what extent recent changes in personnel rules and regulations have improved their ability to complete work, over 46 percent of the employees responded that personnel reform had not improved their ability to do their jobs.

Survey Question: To what extent have recent changes in personnel rules and regulations improved your ability to complete work?



These surveys were conducted before implementation of the pilot program or completion of the NATCA agreement. Consequently the results represent a snapshot of employees' views at that point of time. We do not know whether these recent changes will have any impact on employee perceptions concerning their ability to do their jobs.

⁷ HumRRO was contracted by FAA to assist in developing plans for carrying out a congressionally mandated evaluation of personnel reform in 1999.

EXECUTIVE SUMMARY

FAA Will Need to Clearly Define the Authority and Responsibility for Its Reform Efforts. FAA's approach to personnel reform was to allow each of its six lines of business flexibility in designing human resource systems unique to their needs. However, FAA's personnel reform work plan does not establish specific milestones and goals for implementing key initiatives within the lines of business. Further, FAA does not have a process for holding the lines of business accountable for their progress in implementing key initiatives addressing hiring, training, compensation, and location of personnel.

FAA Should Make More Effective Use of Pilot Programs. FAA's initial approach to personnel reform was to design initiatives for implementation agencywide and for union and non-union workforces alike. However, in our opinion, FAA will need to make more effective use of pilot programs for testing and refining key initiatives. OPM has found that using limited pilot programs in Federal human resource Demonstration Projects can be an effective means for testing and refining new initiatives before making them permanent or expanding them to larger workforces.

More importantly, as demonstrated by OPM, pilot programs can be an effective means for securing the support of other workforces and unions through example, and reforming the existing organizational culture through incremental changes. Although FAA's personnel management system allows the use of pilot programs, Research and Acquisitions is the only line of business to develop a formal pilot program for testing initiatives.

FAA Will Need to Develop a Framework for Coordinating Agencywide Issues With All Its Unions. Although more effective use of pilot programs may help in securing union support for future reform initiatives, FAA will need to develop a framework for facilitating future negotiations with its seven national unions concerning agencywide issues (such as a new FAA travel program). One avenue available to achieve the needed coordination is the National Partnership Council, which FAA established at the onset of reform as a means for coordinating the various labor-management partnerships throughout FAA and working proactively with the unions on issues of mutual concern. However, union and FAA officials agree the Council has not been effective so far in addressing substantive issues. In past Demonstration Projects, OPM has recommended the involvement of organizational change experts to help management and unions develop a broader scope of the project and coordinate plans. Accordingly, FAA should employ outside experts in organizational change to work with the Council and FAA management to enhance effectiveness of the Council.

EXECUTIVE SUMMARY

FAA Will Need to Acquire the Management Tools Necessary to Successfully Achieve and Measure Comprehensive Change. FAA will need to acquire an automated personnel and payroll system for its future compensation programs. FAA's current personnel and payroll systems are over 25 years old and even with extensive modifications, are inadequate to support multiple compensation programs for 6 lines of business and 49,000 employees.

In June 1997, FAA conducted an investment analysis of eight system options and concluded that the most viable solution was to procure a commercial-off-the-shelf system and install, operate, and maintain the system in-house. However, in the Department of Transportation and Related Agencies Appropriations for FY 1998, Congress withheld funding for the new system, stating that further evaluation was needed.

Although further evaluation is even more important now given the complexity of the new Air Traffic pay programs (which were not in development at the time of the June 1997 investment analysis), the Research and Acquisitions pilot program offers FAA a unique opportunity to test other systems. The pilot program has required extensive modifications to FAA's existing systems, and requires a significant amount of manual processing. There are, however, other existing Federal systems capable of processing personnel and payroll requirements of the Research and Acquisitions pilot program.

We found that other agencies (with similar personnel and payroll requirements) have been able to contract out their system needs to other Federal sources. For example, the National Institute of Standards and Technology contracts out its personnel and payroll requirements (which are similar to the pilot program in several ways including use of pay bands) to the National Finance Center, a Government agency based in New Orleans, Louisiana.

FAA should contract out system requirements of the pilot program to other Federal sources currently processing personnel and payroll programs similar to the needs of the pilot program. With the information and experience gained from contracting out personnel and payroll systems for the Research and Acquisitions pilot program, FAA would be in a better position to evaluate future system requirements and alternatives, and substantiate its recommendations to Congress.

EXECUTIVE SUMMARY

FAA also does not have a system for objectively evaluating and reporting the effectiveness of new reform initiatives. For example, FAA has repeatedly claimed that personnel reform has reduced the time to hire external candidates from an average of 6 months to an average of 6 weeks, but was unable to provide any documentation to substantiate those claims.

FAA is currently taking steps to develop the systems and data it will need to evaluate its reform efforts. For example, FAA has recently developed an evaluation plan for its core compensation program. However, this plan will not be used to evaluate the Research and Acquisitions pilot program. Instead, the Research and Acquisitions line of business intends to use its own evaluation plan for identifying and correcting problems that arise during the pilot program. While both plans are valid, the agencywide evaluation plan would provide FAA the opportunity to develop comparable data for evaluating similar pilot programs in other workforces.

FAA Will Need to Identify the Expected Outcomes of New Initiatives as Required by the Government Performance and Results Act. Although systems and data will be necessary for effective evaluation of FAA's reform efforts, FAA must first identify the expected outcomes of reform initiatives and develop a means for measuring their results. Although this is required by the Government Performance and Results Act for Federal programs, FAA classifies personnel reform as a process to improve operations throughout the agency rather than a separate program with specific outcome goals and measures. For example, in its strategic plan, FAA identifies personnel reform as a means for achieving its overall missions of safety, security, and system efficiency instead of identifying the specific results it expects to achieve from personnel reform.

FAA will need outcome goals and measures to demonstrate to Congress and FAA's stakeholders the results of its efforts to resolve the original problems that led Congress to exempt the agency from most personnel requirements of the Federal Government. For example, without identifying expected outcomes and measures, FAA will not be able to accurately demonstrate how the nearly \$1 billion in cost increases associated with the new Air Traffic pay systems will ultimately benefit its operations or the users of the National Airspace System.

EXECUTIVE SUMMARY

Recommendations

Our recommendations focus on assisting FAA enhance its progress in personnel reform. These include:

- reporting to Congress and the Secretary of Transportation by December 31, 1998, proposed additional revenue, savings and productivity gains, and budget reductions that will be used to accommodate or otherwise offset workforce cost increases associated with the new pay systems over the next 5 years;
- establishing timeframes, goals, and accountability for implementing key reform initiatives within the lines of business;
- initiating pilot programs for testing and refining key initiatives (such as a new agencywide travel program);
- obtaining outside expertise in organizational change to assist in developing a strategy for coordinating agencywide reform issues with all FAA's unions;
- requiring that the Research and Acquisitions pilot program (and all future pilot programs) develop realistic cost projections and estimated productivity gains in order to monitor and control program costs against a predetermined budget;
- incorporating specific procedures into the Research and Acquisitions pilot program for addressing employees who do not achieve performance goals;
- contracting out personnel and payroll system requirements for the Research and Acquisitions pilot program to other Federal sources;
- evaluating the Research and Acquisitions pilot program using FAA's agencywide evaluation plan in order to develop comparable data for evaluating similar pilot programs in other workforces; and
- identifying the expected outcomes of new personnel reform initiatives and developing a means for measuring their results as required by the Government Performance and Results Act.

EXECUTIVE SUMMARY

FAA Comments and OIG Response

On September 29, 1998, FAA provided comments in five areas on our report. FAA was concerned about the way certain issues were addressed in the report. FAA stated that the NATCA agreement contains several productivity gains that will be used to offset workforce cost increases associated with the new pay systems. While we agree that provisions of the agreement contain changes in work rules that should result in productivity gains, FAA has not quantified those savings. To clarify this point, we have modified our first recommendation dealing with the budgetary impact of the new pay systems.

FAA also stated that for each of the major personnel program changes developed, it has identified the specific results and performance outcomes expected. While we agree that FAA has developed an evaluation plan for its core compensation plan, we disagree that the specific results and performance outcomes expected have been appropriately identified. For example, FAA has not quantified how potential cost increases associated with the new Air Traffic pay systems will ultimately benefit its operations or the users of the National Airspace System.

FAA also feels that our report understates their accomplishments regarding travel reform. We have tracked FAA's progress on this issue since November 1997. Although the initiatives have not been implemented, on September 29, 1998, FAA officials told us that they plan to implement new travel policies by October 15, 1998.

FAA further stated that good change management strategy dictates that when major, fundamental personnel changes are contemplated by management, the changes should be gradual deliberate, and well communicated. We agree with this concept and our recommendation to make more extensive use of pilot programs was intended to facilitate this philosophy. In addition, as we recognized in the body of our report, FAA noted that recent reorganizations within FAA may provide an opportunity for better coordination in FAA's personnel reform efforts.

FAA indicated that our recommendations were constructive and that it will use many of the recommendations in its ongoing development of the agency's new personnel management system. However, the agency did not identify specific actions it plans to undertake to resolve the issues. We requested FAA to provide comments within 30 days identifying the specific actions taken or planned to resolve our recommendations.

TABLE OF CONTENTS

TRANSMITTAL MEMORANDUM

EXECUTIVE SUMMARY

I. INTRODUCTION

Background 1

Objectives, Scope, and Methodology 2

II. FINDINGS AND RECOMMENDATIONS

Finding A: Recent Actions Taken by FAA Represent Important
Progress But Several Concerns Will Need to be Addressed ... 4

Finding B: Further Effort Is Needed to Address Compensation
Issues in Other Workforces and Resolve Problems
in Hiring, Training, and Location of Personnel 10

IV. EXHIBITS

Exhibit A: FAA Activities Visited 19

Exhibit B: Outside Sources Visited or Contacted 20

Exhibit C: FAA Personnel Reform Implementation Bulletins 21

Exhibit D: Major Contributors to This Report 24

V. APPENDIX

FAA Comments 25

I. INTRODUCTION

Background

In September 1993, the National Performance Review (NPR) concluded that Federal budget, procurement, and personnel rules prevented FAA from reacting quickly to the needs of the air traffic control system. In 1994, building on the concerns raised by the NPR, Congress directed the Secretary of Transportation to undertake a study of management, regulatory, and legislative reforms that would enable FAA to provide better air traffic control services without changing FAA's basic organizational structure.

The resulting report to Congress (issued in February 1995) found that existing Federal personnel rules and procedures were rigid, complex, and over-proceduralized, limiting FAA's ability to attract and retain qualified staff at key facilities or to reassign employees in response to changing needs. The report also found that the Federal performance management system limited the ability of managers to reward their best employees or discipline problem employees, and that training programs provided standard training regardless of the skills, training, and experience employees already had. The report concluded that the most effective internal reform would be to exempt FAA from all Federal personnel rules and procedures.

On November 15, 1995, Congress, in making appropriations for the Department of Transportation and related agencies for the fiscal year (FY) ending September 30, 1996, directed the FAA Administrator to develop and implement a new personnel management system to take effect April 1, 1996. The law exempted FAA from most provisions of Title 5 of the United States Code and other Federal personnel laws¹. The law required that FAA's new personnel management system address the unique demands of the agency's workforce, and, at a minimum, provide greater flexibility in the

- ✓ hiring,
- ✓ training,
- ✓ compensation, and
- ✓ location of personnel.

¹ Congress did not exempt FAA from provisions of Title 5 pertaining to veterans' preference; antidiscrimination; Federal retirement, unemployment and insurance coverage; and limitations on the right to strike.

The Federal Aviation Reauthorization Act of 1996 placed additional requirements on FAA by requiring that any changes made to FAA's new personnel management system be negotiated with the agency's unions. Accordingly, issues that were previously not negotiable (such as staffing and compensation) became subject to negotiation.

Since the onset of personnel reform, much of FAA's efforts have focused on developing a framework of policies and procedures for hiring, training, compensating, and locating its workforce more effectively. For example, on April 1, 1996, FAA introduced its new personnel management system, which replaced most provisions of Title 5 with new policies and procedures specific to FAA. The new system delegated significant authority to FAA's lines of business to develop human resource policies unique to their missions and goals.

FAA also established the Personnel Reform Implementation Bulletin System (personnel bulletins) to announce new initiatives and procedures, and provide direction for implementing its new personnel management system. On April 1, 1996, FAA issued 24 personnel bulletins, but since that time, only 7 additional personnel bulletins have been issued. Exhibit C provides a list of the 31 FAA personnel bulletins issued since April 1, 1996.

Objectives, Scope, and Methodology

The objectives of our audit were to (1) identify the Federal Aviation Administration's (FAA) progress in implementing a new personnel management system that addresses FAA's unique demands in the hiring, training, compensation, and location of personnel; and (2) identify what factors, if any, may be impeding FAA's progress.

The audit was conducted between November 1997 and August 1998 in FAA's Air Traffic Services and Research and Acquisitions lines of business², which represent approximately 77 percent of FAA's workforce. Exhibits A and B of this report provide listings of the FAA activities and outside sources visited or contacted.

We conducted the audit in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States and included such

² FAA is composed of six separate organizations or lines of business: Air Traffic Services, Research and Acquisitions, Regulation and Certification, Civil Aviation Security, Airports, and Commercial Space Transportation.

tests as we considered necessary to provide reasonable assurance of detecting abuse or illegal acts.

We reviewed FAA's new personnel management system and initiatives designed or implemented to improve hiring, training, compensation, and location of personnel. We reviewed all personnel bulletins issued by FAA since April 1, 1996.

We also reviewed the individual efforts of two of FAA's lines of business: Air Traffic Services and Research and Acquisitions. Within these two lines of business, we identified primary offices responsible for implementing personnel reform initiatives and reviewed each organization's implementation of agencywide personnel bulletins. In addition, we reviewed all personnel bulletins issued by those lines of business.

To gain an understanding of reform efforts undertaken in other organizations, we visited Government agencies involved in the Office of Personnel Management (OPM) Demonstration Project Program. This Program temporarily exempts agencies from certain Federal personnel laws and regulations in order to test new ideas. We reviewed Demonstration Projects in the Department of Veterans Affairs, the National Institute of Standards and Technology, and the National Oceanic and Atmospheric Administration. In addition, we interviewed human resource and labor relations personnel from the United States Postal Service to obtain their perspective on implementing personnel reform.

In addition, we also interviewed managers from OPM, congressional staff familiar with FAA's personnel reform efforts, and officials from FAA employee associations and labor unions to gain their perspective on FAA's progress in personnel reform.

There has been no prior Office of Inspector General or General Accounting Office audit coverage of FAA's personnel reform efforts.

II. FINDINGS AND RECOMMENDATIONS

Finding A. Recent Actions Taken by FAA Represent Important Progress But Several Significant Concerns Will Need to be Addressed.

Approximately 3 years after being given the authority to reform its personnel management system, FAA has taken actions that represent important progress in its personnel reform efforts. First, FAA has reached a new collective bargaining agreement with its largest union, the National Air Traffic Controllers Association (NATCA), which contains several key reform provisions including a new pay system for air traffic controllers. Second, FAA has implemented its first pilot program since beginning its personnel reform efforts. The program will test the agency's core compensation plan within the Research and Acquisitions line of business. To ensure that the potential benefits of these actions are fully realized, FAA will need to address several significant concerns. These include (1) determining the means for funding requirements of the new NATCA pay system without affecting other critical missions, and (2) developing realistic estimates of the total costs and potential productivity gains of the Research and Acquisitions compensation pilot program.

The NATCA Agreement.

On July 9, 1998, FAA and NATCA reached a tentative collective bargaining agreement that was subsequently ratified on August 27, 1998. The agreement (which covers 15,000 controllers and became effective September 15, 1998) contains several personnel reform related provisions. For example, one key provision of the agreement establishes a new pay system for air traffic controllers based on reclassifying air traffic facilities. Under the new pay system (which will become effective on October 1, 1998), FAA has reclassified each air traffic facility into new Air Traffic Control Grades with corresponding pay bands ranging from \$33,320 to \$118,069³. The new system should allow FAA to attract and retain qualified personnel at key locations by basing controller pay on the complexity of the operations they manage as well as the volume of air traffic they control.

³ These annual salary figures do not include locality pay, cost of living differential, or premium pay (such as overtime and night differential), which controllers will continue to receive in addition to base pay.

Under the Agreement, All Controllers Will Receive Pay Increases. Under the new system, facilities that were previously rated at the same level may now be reclassified into different Air Traffic Control (ATC) Grades. For example, under FAA’s old classification system, air traffic control towers at the Chicago O’Hare and John F. Kennedy airports were classified as Level 5 facilities, but under the new system the facilities will be classified as ATC Grades 12 and 10, respectively.

A new target base pay (which will be transitioned in over a 3-year period) has been determined for each controller based on the reclassification of their assigned facility and their prior Federal General Schedule (GS) grade and step. However, under these reclassifications, no controller will be forced to take a reduction in pay. In fact, all controllers will receive a pay increase. For example, under the agreement, a GS-12 controller at the Allentown Air Traffic Control Tower will receive (on average) an \$11,000 increase (approximately 19 percent) over the next 3 years because the facility has been reclassified to an ATC Grade 8.

Example of Controller Base Pay Increase
(GS-12 Controller, Allentown Air Traffic Control Tower)

FY	Transition Base Pay⁴	Increase	New Base Pay
1999	\$57,181	\$3,534	\$60,715
2000		\$4,050	\$64,765
2001		\$3,427	\$68,192

Similarly, a GS-14 controller at the Atlanta Air Traffic Control Tower will transition from a current base salary of \$79,035 to a new salary of \$94,095 (a \$15,059 increase) over the next 3 years because the facility has been reclassified to an ATC Grade 12.

FAA is also developing a similar pay program for Air Traffic supervisors and managers. Under the new supervisory program (which is based on the NATCA agreement), managers and supervisors could potentially make 10 to 20 percent more than controllers at their assigned facility.

⁴ Transition base pay includes \$2,252 in Air Traffic Revitalization Act pay differential. Under the agreement, this differential is integrated into each controller’s base pay in the first year at a rate of 4.1 percent.

Changes in Work Rules May Produce Productivity Gains. The agreement also includes changes in work rules that may produce productivity gains by enhancing system efficiency. For example, provisions of the agreement eliminate alternate work schedules (such as 4-day work weeks) at all 24-hour facilities and allow managers to assign controllers collateral duties (such as training, briefing, and quality assurance) when not controlling air traffic.

Another provision of the agreement will decrease the current number of first line supervisors by one-third. In a separate memorandum to the agreement, FAA agreed to increase the supervisor/controller ratio from its current level of 1:7 to 1:10 by making more extensive use of nonsupervisory controller-in-charge positions. However, specific savings have not been identified.

FAA Will Need to Address Several Significant Concerns Regarding the Agreement. While the NATCA agreement represents important progress in FAA's personnel reform efforts, the cost increases associated with the agreement will be significant. FAA estimates that the new pay system for controllers will require an additional \$860 million over the next 5 years. Further, the proposed similar pay system for Air Traffic managers and supervisors could require an additional \$260 million over the same period. In total, FAA estimates that the new pay system will require an additional \$1 billion over current payroll costs during the next five years.

In the House of Representatives Report on the Department of Transportation and Related Agencies Appropriations for FY 1999, Congress directed FAA to report by December 31, 1998, which programs and activities were reduced or deferred in FY 1999 to finance the new pay system. However, to determine the potential impact of the agreement on other critical missions, we are recommending that FAA report to Congress and the Secretary of Transportation all proposed additional revenue, savings and productivity gains, and budget reductions that will be used to accommodate or otherwise offset workforce cost increases associated with the new pay systems over the next 5 years (the duration of the NATCA agreement).

The Research and Acquisitions Pilot Program.

On July 19, 1998, FAA initiated an 18-month pilot program of its core and executive compensation programs within the Research and Acquisitions line of business.⁵ The pilot program will cover 1,200 non-bargaining-unit employees,

⁵ The Research and Acquisitions line of business is responsible for research, design, development, acquisition, and implementation functions that support the National Airspace System.

(approximately 60 percent of Research and Acquisitions 2,000 employees) and approximately 35 executives.

The program is designed to improve organizational performance and the agency's ability to attract and retain critical skills. Key aspects of the pilot program include relaxing the rigid rules governing setting pay and establishing a means for linking pay to performance.

The pilot compensation program replaces the 15-grade Federal general pay schedule with 12 pay bands based on comparable salaries in the private sector. It also replaces automatic pay increases of the general pay system (i.e., within grade step increases or cost of living adjustments) with increases in pay based on how well employees achieve both individual and organizational performance goals linked to FAA's strategic plan.

The new performance based pay system should also allow the agency to attract and retain highly qualified individuals and more effectively compete with the private sector by allowing greater flexibility in setting pay. For example, under the core compensation plan, managers have the discretion to offer new hires a salary within the upper one-third of their pay band based on the skills and relevant experience demonstrated by the individual. Thus, an engineer hired at what was formerly a GS-13 step one (\$52,176) could now be paid a starting salary between \$56,900 and \$69,100⁶.

Performance Goals Are a Key Component of the Pilot Program. The Research and Acquisitions line of business has also developed organizational performance goals that reflect both the Department's and FAA's strategic plans. For example, to help maintain aviation security (a key goal of FAA's strategic plan), the Research and Acquisitions line of business has developed performance goals for identifying and deploying equipment capable of increasing the level of detection of security threats to civil aviation industry. Although the goal is not expected to be completed until 2002, the organization has developed milestones that must be accomplished each year. The pilot program also allows executives to receive bonuses based on meeting certain short-term incentive goals. However, these goals have not yet been approved.

FAA Will Need to Address Several Concerns Regarding the Pilot Program. FAA will need to address several key issues before initiating other pilot compensation programs in its remaining workforces. These include establishing an effective and efficient means for dealing with poor performers

⁶ Salaries do not include locality pay which employees participating in the pilot will continue to receive.

and estimating the actual costs and the expected productivity gains to be realized by pilot programs.

The Research and Acquisitions pilot program does not have a means for addressing poor performance. For example, guidelines for dealing with performance that does not meet expectations instructs supervisors to confer with appropriate human resource personnel and consult the FAA Personnel Management System manual for effecting a removal, demotion, or disciplinary actions. However, guidance in this manual simply lists the required procedures for issuing disciplinary actions (e.g., 30 days written notice, employee response periods, appeal rights). In our opinion, this system does not improve the ability of managers to deal with poor performers. As a result, the burdensome, time-consuming, paper-work-oriented Federal procedures for addressing an employee's poor performance (procedures that often inhibit managers from taking effective action) remain essentially unchanged in the pilot program.

FAA also requires that the potential cost increases of new initiatives be offset by corresponding gains in productivity and new efficiencies. However, this is not a realistic requirement since employees have the potential to earn significantly more money under the program. For example, under the general pay schedule, a GS-15 can earn up to \$94,247 (excluding locality pay) while the same individual can earn up to \$122,500 under the pilot program. FAA, however, has not identified the specific productivity gains that will offset potential increases in payroll.

OPM has found that Federal Demonstration Projects⁷ similar to the Research and Acquisitions pilot program are inherently not budget neutral and has dropped this requirement as a prerequisite for new Demonstration Projects. FAA should apply the lessons learned by OPM and replace its requirements for budget neutrality with requirements that the lines of business instead develop realistic cost projections and estimated productivity gains for all proposed pilot programs. By establishing realistic cost projections, FAA will be able to more accurately forecast its funding requirements and monitor and control pilot program costs against a predetermined budget.

⁷ The Civil Service Reform Act of 1978 granted OPM the authority to conduct Demonstration Projects within Federal agencies to determine whether a specified change in personnel management policies or procedures would result in improving personnel management.

Recommendations

We recommend that FAA:

1. Report to the House and Senate Committees on Appropriations and the Secretary of Transportation by December 31, 1998, proposed additional revenue, savings and productivity gains, and budget reductions that will be used to accommodate or otherwise offset cost increases associated with the new Air Traffic pay systems over the next 5 years.
2. Incorporate specific procedures into the Research and Acquisitions pilot program for addressing employees who do not achieve performance goals.
3. Require that the Research and Acquisitions pilot program develop realistic cost projections and estimated productivity gains in order to monitor and control pilot program costs against a predetermined budget, and require that all future pilot programs develop similar estimates.

FAA Comments

We provided FAA with a preliminary copy of this report on September 25, 1998. In their written response (included as an appendix to this report), FAA stated that our recommendations were constructive and in line with the recent self-evaluation it has conducted. However, FAA did not address specific actions to resolve the issues and recommendations identified in this report.

OIG Comments

We requested FAA to provide comments within 30 days identifying the specific action taken or planned to resolve the recommendations.

Finding B. Further Effort Is Needed to Address Compensation Issues in Other Workforces and Resolve Problems in Hiring, Training, and Location of Personnel.

The new NATCA agreement and the Research and Acquisitions pilot compensation program represent important progress in FAA's personnel reform efforts; however, they affect only two workforces and address primarily compensation-related issues. Further effort will be needed by FAA to address compensation issues in other workforces and to resolve other significant issues in hiring, training, and location of personnel. Key reform initiatives addressing these issues remain in development or have been only partially implemented by FAA's lines of business. This occurred because FAA has not established specific milestones and goals for implementing key initiatives within the lines of business, or held the lines of business accountable for their progress in personnel reform. In addition, FAA has not made effective use of pilot programs for testing and refining key reform initiatives or developed an effective framework for facilitating future negotiations with its seven national unions concerning agencywide issues. As a result, the original problems that led Congress to exempt the agency from most personnel provisions of the Federal Government have not been resolved. FAA's future reform efforts will also depend on the agency's ability to acquire or develop an automated personnel and payroll system for processing its future compensation programs and an effective means for accurately evaluating and reporting the success or failure of personnel reform.

Key Initiatives Addressing Hiring, Training, and Location of Personnel Remain in Development or Have Been Only Partially Implemented.

Although FAA has made recent progress in addressing compensation issues for two of its workforces, key reform initiatives addressing other significant issues in hiring, training, and location of personnel remain in development or have been only partially implemented by FAA's lines of business. For example, on April 1, 1996, FAA eliminated OPM's 1-year time-in-grade requirements for employee promotions. However, only one line of business has established specific promotion criteria to replace those requirements. Consequently, nearly 3 years after being given the authority to develop a new personnel management system, OPM's time-in-grade requirements continue to apply to most of FAA's workforce.

As illustrated in the following examples, we found that key reform initiatives addressing hiring, training, and locating personnel remain in development or have only been partially implemented by FAA's lines of business.

- ✓ ***Hiring (Increased Hiring Flexibilities).*** FAA granted the lines of business the flexibility to use various options when hiring new employees. For example, the lines of business can now use (1) announced vacancies (announcing a vacant position either locally or nationally to solicit applications and obtain the best available candidates), (2) on-the-spot hiring (targeting individuals for hard-to-fill positions or facilities), and (3) central registers (lists of pre-screened, highly qualified applicants). However, Air Traffic Services has not implemented these hiring options. Facility managers from Air Traffic Services told us that they were still restricted to hiring applicants using existing OPM procedures.

- ✓ ***Hiring (Executive Recruitment).*** FAA also changed the hiring process for its executives. Since FAA is no longer limited by OPM restrictions on the number of executives it can hire, the Administrator can now determine the number of executive positions FAA needs based on organizational requirements. For example, Human Resource managers told us they have been able to hire 21 chief scientific and technical advisors in areas such as avionics, communications, and software engineering. Under previous OPM restrictions, these positions were included in FAA's total allocation of executives and thus were limited. However, other types of executive recruitment methods, such as recruitment and retention bonuses, are still in development.

- ✓ ***Training (Reduced Redundant Training).*** FAA provided the lines of business flexibility to design screening tests to ensure that new employees have the required skills thereby eliminating the need for courses that were redundant for some employees. Airway Facilities has designed the Basic Electronic Screening Test, which will be used to ensure that potential candidates possess the basic electronics knowledge and background needed to qualify for maintenance technician positions. However, implementation of the test was stopped due to objections from employee associations about potential hiring disparities that could result from using the test. After examining the potential disparities, FAA is tentatively planning to begin using the test on October 1, 1998.

- ✓ ***Location (Travel Program Changes).*** FAA developed 18 travel reform initiatives covering temporary duty travel, extended stays, and permanent change of station moves. The travel initiatives were approved by the Administrator as early as April 1997, but the agency chose not to implement these initiatives until they could be negotiated with all the agency's unions. Although the recent agreement between FAA and

NATCA contains some of the travel reform initiatives such as reimbursing employees a flat rate for lodging while on temporary duty travel, other unions have not yet agreed to similar proposals. FAA may (pending approval of the Administrator) begin testing these initiatives using limited workforces but has not established any timeframes for implementation.

Agencywide employee surveys also noted a lack of progress by FAA in addressing hiring, training, and relocation throughout the agency. For example, in a January 1998 interim evaluation report conducted by the Human Resource Research Organization (HumRRO)⁸, the perception among FAA managers agencywide was that reform has had little impact on their ability to hire, train, or relocate personnel more effectively. Of the 193 managers that responded to the HumRRO survey, over 41 percent indicated that they had not had the opportunity or occasion to use new flexibilities since implementation of personnel reform.

Further, over 43 percent cited specific limitations by their lines of business as the primary reason for not using new flexibilities provided. As shown in the following table, perceptions of managers in the survey were that reform had not yet helped them in the areas of hiring, training, and relocating personnel.

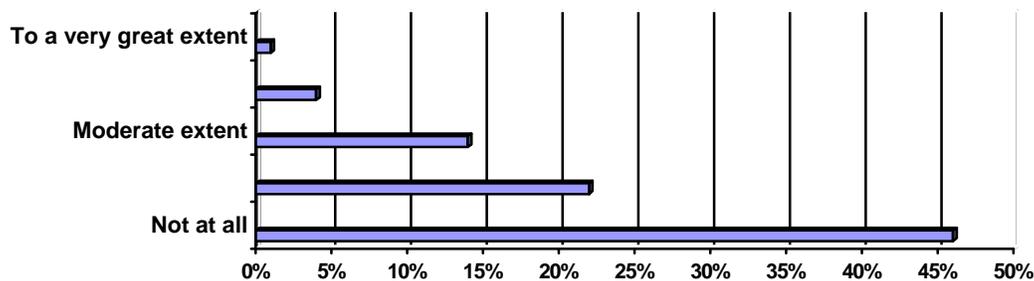
Potential Outcome of Reform Initiatives in the Areas of Hiring, Training, and Locating Personnel	Percentage Disagreeing
Since April 1996, I have found it faster to staff positions with current or former Federal employees	66%
Streamlined staffing procedures have made it easier to fill vacancies in my line of business	66%
Since April 1996, I have found it faster to hire someone who has never worked for the Federal Government	68%
On the whole, FAA personnel reform has helped my line of business to better accomplish its mission	68%
Automation innovations have improved the staffing process in my line of business	70%
Since April 1996, staffing flexibilities under FAA personnel reform have better enabled me to recruit well-qualified applicants	74%
Since April 1996, staffing flexibilities under FAA personnel reform have better enabled me to manage work in my line of business	79%
Since April 1996, training initiatives under FAA personnel reform have improved the efficiency of training administration	85%

(Source: HumRRO Implementation Status Report, January 1998).

⁸ HumRRO was contracted by FAA to assist in developing plans for carrying out a congressionally mandated evaluation of personnel reform in 1999.

FAA's 1997 Employee Attitude Survey (conducted by the FAA Civil Aeromedical Institute) found similar perceptions among the 25,000 management and non-management FAA employees responding to the survey. As shown in the following chart, when asked to what extent recent changes in personnel rules and regulations have improved their ability to complete work, over 46 percent of the employees responded that personnel reform had not improved their ability to do their jobs.

Survey Question: To what extent have recent changes in personnel rules and regulations improved your ability to complete work?



These surveys were conducted before implementation of the pilot program or completion of the NATCA agreement. Consequently the results represent a snapshot of employees views at that point of time. We do not know whether these recent changes will have any impact on employee perceptions concerning their ability to do their jobs.

FAA Has Not Clearly Defined the Authority and Responsibility for its Reform Efforts.

FAA will need to clearly define the authority and responsibility for its personnel reform efforts. FAA's approach to personnel reform was to allow each of its six lines of business flexibility in designing human resource systems unique to their needs. However, FAA has not established specific milestones and goals for implementing key initiatives within the lines of business, or held the lines of business accountable for their progress.

Although FAA has developed a personnel reform implementation work plan, that work plan does not establish the specific milestones and goals necessary to ensure timely implementation of key initiatives. For example, FAA's work plan establishes target dates for developing and approving the new agencywide

compensation plan (a key element of reform), but provides no milestones for actually implementing the compensation plan. More importantly, FAA's work plan has no means for carrying out the work plan within the lines of business or for holding executives accountable for meeting established goals.

Filling Key Positions. Delays in filling key positions may have also hampered FAA's efforts. At the onset of reform, the Director of the Office of Human Resource Management took the lead in developing and implementing the agency's new personnel management system. Although this position was fully staffed when Congress directed the Administrator to develop the new personnel management system in November 1995, the position has been vacant or filled by a series of acting directors since September 1997. Further, the Office of Associate Administrator for Administration (to whom the Office of Human Resource Management reported) has also been vacant or filled with acting administrators since February 1998. Thus, since the onset of reform two positions key to the successful implementation of FAA's new personnel management system were often vacant.

Recent reorganizations within FAA may provide an opportunity for better coordination in FAA's personnel reform efforts. Currently, as a result of the reorganization announced by the Administrator in June 1998, the Office of Associate Administrator for Administration and Director of the Office of Human Resource Management no longer exist. The responsibility for the implementation of personnel reform now lies with the Assistant Administrator for Human Resource Management reporting directly to the Administrator.

FAA Has Not Made Effective Use of Pilot Programs for Testing Key Initiatives.

FAA's initial approach to personnel reform was to design initiatives for implementation agencywide and for union and non-union workforces alike. However, in our opinion, FAA will need to make more effective use of pilot programs for testing and refining key initiatives. OPM has found that using limited pilot programs in Federal human resource Demonstration Projects can be an effective means for testing and refining new initiatives before making them permanent or expanding them to larger workforces. More importantly, as demonstrated by OPM, pilot programs can be an effective means for securing the support of other workforces and unions through example, and reforming the existing organizational culture through incremental changes.

Although FAA's personnel management system allows the use of pilot programs, Research and Acquisitions is the only line of business to develop a formal pilot program for testing initiatives. The pilot program incorporates many of the concepts endorsed by OPM in managing Federal Demonstration Projects. For example, the pilot allows the agency to test and refine the agency's core compensation plan using a limited workforce. In addition, when union buy-in to the program could not be secured, the Research and Acquisitions organization implemented the program for its non-union workforces alone (an approach endorsed by OPM for agencies with large and diversified workforces). Lastly, the pilot will provide other workforces and unions with examples of working reform initiatives, which will be necessary to secure future support of similar programs.

Coordinating Agencywide Issues With All FAA's Unions. Although more effective use of pilot programs may help in securing union support for future reform initiatives, FAA will need to develop a framework for facilitating future negotiations with its seven national unions concerning agencywide issues (such as a new FAA travel program). One avenue available to achieve the needed coordination is the National Partnership Council, which FAA established at the onset of reform as a means for coordinating the various labor-management partnerships throughout FAA and working proactively with the unions on issues of mutual concern. However, union and FAA officials agree the Council has not been effective so far in addressing substantive issues.

In past Demonstration Projects, OPM has recommended the involvement of organizational change experts to help management and unions develop a broader scope of the project and coordinate plans. According to OPM, three main advantages of using experts in organizational change are (1) outside consultants are professionally trained in encountering resistance to change, (2) a third party is more likely to be impartial, and (3) the consultant is free from the organization's preexisting culture. In our opinion, obtaining the assistance of outside experts in organizational change could help FAA better utilize the National Partnership Council.

FAA Will Need to Acquire the Management Tools Necessary to Successfully Achieve and Measure Comprehensive Change.

To successfully implement key reform initiatives, FAA will need to acquire an automated personnel and payroll system for its future compensation programs and develop an accurate means for objectively measuring its personnel reform efforts.

Automated Personnel and Payroll Systems. FAA's current personnel and payroll systems are outdated and labor intensive, relying extensively on manual processing. The existing systems, even with extensive modifications, are inadequate to support a complex compensation program with multiple features for 6 lines of business and 49,000 employees. Consequently, long-term initiatives such as a new agencywide compensation program are contingent on availability of a new automated system.

FAA's proposed project to replace its current personnel and payroll systems is the Workforce Information Next Generation System (WINGS). In June 1997, FAA conducted an investment analysis of WINGS and reviewed eight alternative system solutions. The analysis concluded that the most viable solution was to procure a commercial-off-the-shelf system (at an estimated development cost of \$39 million) and install, operate, and maintain the system in-house. However, in the Department of Transportation and Related Agencies Appropriations for FY 1998, Congress withheld funding for WINGS, stating that further evaluation was needed.

Although further evaluation is even more important now, given the complexity of the Air Traffic pay systems (which were not in development at the time of the June 1997 investment analysis), the Research and Acquisitions pilot compensation program offers FAA a unique opportunity to test alternatives to WINGS. The pilot program has required extensive modifications to FAA's existing systems, and requires significant amount of manual processing. There are, however, other existing Federal systems capable of processing personnel and payroll requirements of the pilot program. In discussions with managers from OPM Demonstration Projects, we found that other agencies (with personnel and payroll requirements similar to the compensation pilot program) have been able to contract out their system needs. For example, the National Institute of Standards and Technology contracts out its personnel and payroll requirements (which are similar to the compensation pilot program in several ways including use of pay bands) to the National Finance Center, a Government agency based in New Orleans, Louisiana.

FAA should contract out system requirements of the pilot program to other Federal sources currently processing personnel and payroll programs similar to the needs of the pilot program. With the information and experience gained from contracting out personnel and payroll systems for the Research and Acquisitions pilot program, FAA would be in a better position to evaluate future system requirements and alternatives, and to substantiate its recommendations to Congress.

Measuring Progress in Personnel Reform. FAA also does not have a system in place for objectively evaluating and reporting the effectiveness of new reform initiatives. For example, FAA has repeatedly claimed that personnel reform has reduced the time to hire external candidates from an average of 6 months to an average of 6 weeks, but it was unable to provide any documentation to substantiate those claims.

FAA is, however, currently taking steps to develop the systems and data it will need to evaluate its reform efforts. In conjunction with HumRRO, FAA has established some qualitative baseline data using results of the HumRRO management survey and completed an evaluation plan for its core compensation program.

However, the Research and Acquisitions organization intends to use its own evaluation plan and data for evaluating the pilot program. Although both plans are valid, the agencywide evaluation plan would provide FAA the opportunity to accumulate the comparable baseline data that will be needed for evaluating similar pilot programs in other workforces.

Identifying the Expected Outcomes of New Initiatives as Required by the Government Performance and Results Act. Although systems and data will be necessary for effective evaluation of FAA's reform efforts, FAA must first identify the expected outcomes of reform initiatives and develop a means for measuring their results. Although this is required by the Government Performance and Results Act for Federal programs, FAA classifies personnel reform as a process to improve operations throughout the agency rather than a separate program with specific outcome goals and measures. For example, in its strategic plan, FAA identifies personnel reform as a means for achieving its overall missions of safety, security, and system efficiency instead of identifying the specific results it expects to achieve from personnel reform.

FAA will need outcome goals and measures to demonstrate to Congress and FAA's stakeholders the results of its efforts to resolve the original problems that led Congress to exempt the agency from most personnel requirements of the Federal Government. For example, without identifying expected outcomes and measures, FAA will not be able to accurately demonstrate how the nearly \$1 billion in cost increases associated with the new Air Traffic pay systems will ultimately benefit its operations or the users of the National Airspace System.

Recommendations

We recommend that FAA:

1. Establish realistic timeframes, goals, and accountability for implementing key reform initiatives within the lines of business.
2. Initiate pilot programs for testing and refining other key initiatives (such as a new agencywide travel program).
3. Obtain outside expertise in organizational change to assist in developing a strategy for coordinating agencywide reform issues with all FAA's unions.
4. Contract out automated personnel and payroll system requirements for the Research and Acquisitions compensation pilot program.
5. Evaluate the Research and Acquisitions pilot program using FAA's agencywide evaluation plan in order to develop comparable baseline data for evaluating similar pilot programs in other workforces.
6. Identify the expected outcomes of new personnel reform initiatives and develop a means for measuring their results as required by the Government Performance and Results Act.

FAA Comments

We provided FAA with a preliminary copy of this report on September 25, 1998. In their written response (included as an appendix to this report), FAA stated that our recommendations were constructive and in line with the recent self-evaluation it has conducted. However, FAA did not address specific actions to resolve the issues and recommendations identified in this report.

OIG Comments

We requested FAA to provide comments within 30 days identifying the specific action taken or planned to resolve the recommendations.

FAA Activities Visited

Headquarters

- Associate Administrator for Administration
- Office of Human Resources Management

- Associate Administrator for Air Traffic Services
- Air Traffic Resource Management Program
- Airway Facilities Resource Management

- Associate Administrator for Research and Acquisitions
- Office of Business Management
- Office of Information Technology
- Office of Air Traffic Systems Development

FAA Field Locations

- William J. Hughes Technical Center - Atlantic City, NJ
- Southern Region Headquarters
- Atlanta Air Route Traffic Control Center
- Atlanta Hartsfield Airport Tower
- Atlanta Hartsfield Airport System Management Office

Outside Sources Visited or Contacted

- U.S. Office of Personnel Management
- U.S. Postal Service
- Human Resource Research Organization
- National Institute of Standards and Technology
- U.S. Department of Veterans Affairs
- National Oceanic and Atmospheric Administration
- Department of Defense
- National Air Traffic Controllers Association
- Professional Airways Systems Specialists
- National Federation of Federal Employees

FAA Issued Personnel Reform Implementation Bulletins

NO.	Effective Date	Subject	Purpose
001	04/01/96	The New Personnel Management System	Establishes the FAA Personnel Reform Implementation Bulletin (PRIB) System and conveys the FAA Personnel Management System (PMS).
002	04/01/96	Compensation Committee	Establishes the FAA Compensation Committee which will develop corporate level recommendations for the new FAA compensation system.
003	04/01/96	National Employees Forum	Establishes the FAA National Employees Forum to gather information on issues identified by senior management and employee groups, and to gather information on FAA's EEO, affirmative action, and diversity initiatives.
004	04/01/96	Position Descriptions	Standardizes and reduces the number and length of current position descriptions (PD) to make them simpler to use and more understandable for both managers and employees.
005	04/01/96	Highest Previous Rate of Pay	Grants the lines of business the authority to use an individual's highest previous rate of pay in determining their salary.
006	04/01/96	Definition of Overtime Work	Describes overtime in the case of "quick turnarounds". Time worked in excess of 8 hours in a 24-hour period does not qualify as overtime and will be paid at the basic rate.
007	04/01/96	Payment of Premium Pays	Changes the existing policy for Sunday and night differential premium pays to "pay for time actually worked".
008	04/01/96	Waiver of Offset for Retiree Pays	Gives the FAA Administrator the authority to grant waivers of offsets to military retired pay and civilian reemployed annuitant salary.
009	04/01/96	Incentives for Hard-to-Staff Facilities	Grants the lines of business the authority to use various incentives for attracting, hiring, and retaining personnel for hard-to-staff facilities and positions.
010	04/01/96	Gainsharing	Grants the lines of business the authority to develop specific productivity gainsharing programs.
011	04/01/96	Tours of Duty	Grants the lines of business the authority to determine when to authorize first 40/80 duty hours.
012	04/01/96	Permanent Change of Station (PCS) Benefits	Grants the lines of business the authority to determine eligibility for and amount of PCS benefits which will be offered under Merit Promotion Plan or Internal Placement Plan procedures.
013	04/01/96	Executive System	Implements FAA's new Executive System.

NO.	Effective Date	Subject	Purpose
014	04/01/96	Executive System Incentive Program	Grants the Administrator the authority to determine the amount and number of incentives given to individual executives based upon recommendations of the heads of lines of business for their subordinates.
015	04/01/96	National Labor-Management Partnership Council	Establishes a council to integrate and coordinate activities of the various labor management partnerships within the agency and to interact with the DOT Labor Management Partnership Council.
016	04/01/96	Performance Management	Grants the lines of business the authority to design programs in performance planning, appraisals, and incentives.
017	04/01/96	Guaranteed Fair Treatment	Describes FAA's fair treatment policy for handling disciplinary actions, reduction in pay or grade, removal actions, grievances, and appeals for covered actions.
018	04/01/96	External Hiring Options	Grants the lines of business the flexibilities to use various options for external hiring, such as announced vacancies, on-the-spot hiring, and the FAA central register.
19	04/01/96	Interview Policy	Grants managers the authority to choose to interview one or more candidates from a selection list or other recruitment source. Managers can choose to interview all, one, or none but must document the criteria for their choice.
020	04/01/96	One-Year Probationary Period	Establishes a policy that all new hires, temporary and permanent, who have not previously completed a probationary period under the competitive service or in the FAA will serve a 1-year probationary period. All first time managers and supervisors will also serve a 1-year probationary period.
021	04/01/96	Promotion Qualifications	Eliminates the 1-year time-in-grade restriction requirement. Promotions will be based on qualifications outlined in objective, quantifiable criteria.
022	04/01/96	Permanent Internal Assignment	Establishes the policy that all selections for permanent internal assignments will be based on merit, and that lines of business selecting officials will determine whether the selections will be done competitively or non-competitively.
023	04/01/96	Temporary Internal Assignment	Establishes policy and procedure for temporary assignments to a position higher, same or lower grade or to a position with an unclassified set of duties.
024	04/01/96	Career Transition and Priority Selection	Describes the FAA program to provide career transition assistance to all displaced and surplus employees under reduction-in-force procedures.

NO.	Effective Date	Subject	Purpose
025	07/01/96	Changes to PRIB #007- Payment of Premium Pays	Clarifies night differential and unscheduled overtime, and revises listing of deleted paragraphs of FAA Orders.
026	08/01/96	Executive System Staffing	Describes procedures for executive resource planning, the establishment of executive system positions, and the filling of FAA executive positions.
027	10/29/96	Executive System Performance Management	Describes the executive system performance management policies and procedures for performance appraisals, conduct, and discipline.
028	04/07/97	Hiring Authority for Outstanding Scholars	Establishes an additional category for external hiring (PRIB #018) authority for on-the-spot hiring for outstanding scholars in certain groups.
029	08/29/97	Temporary Promotions into Executive System Positions	Describes policy and procedures for temporarily promoting non-executive employees into executive system positions.
030	10/15/97	Hiring Authority for AT- CTI Graduates	Establishes an additional category for external hiring (PRIB #018) authority for graduates of the Air Traffic Collegiate Training Initiative Program.
031	12/30/97	Interchange Program	Describes policy and procedures for mutual exchange of employees between the FAA and Federal, state, local, and Indian tribal governments, and other organizations that meet agency criteria for performance of work of mutual concern and benefit.

Major Contributors to This Report

The following are team members that contributed to this report.

David A. Dobbs	Director, Aviation Operations Audits
Robert F. Prinzbach	Project Manager
Angela McCallister	Auditor
Daniel R. Raville	Auditor
Coletta A. Treakle	Evaluator



U.S. Department
of Transportation
**Federal Aviation
Administration**

Office of the Administrator

800 Independence Ave., SW.
Washington, DC 20591

SEP 29 1998

Kenneth M. Mead,
Inspector General, Department of Transportation
400 7th Street, S.W.
Washington, D.C. 20590

Dear Ken:

I am taking this opportunity to make initial comments on the draft report "Personnel Reform: Recent Actions Represent Progress But Further Effort Is Needed To Achieve Comprehensive Change" prior to its formal issuance. We will provide more formal comments after its issuance.

I recognize the tremendous amount of research, analysis, interview time, and effort which your staff has devoted to this audit and report over the past several months. Your recommendations are constructive and in many instances are in line with the recent self-evaluation FAA has conducted. I am, however, concerned about the way certain issues are addressed in the report.

The NATCA Agreement and Budget

The report states that the National Air Traffic Controllers Association (NATCA) agreement represents important progress in personnel reform, but expresses concern with the costs associated with the agreement.

We are pleased that the NATCA agreement will in part support our overall objective to more flexibly locate personnel. The new NATCA pay plan reached under the agreement recognizes differences in difficulty among facilities and creates incentives to move from less difficult to more difficult facilities, enabling the agency to better meet its most critical staffing needs. Additional compensation is heavily skewed toward correcting pay compression problems, i.e., controllers at lower complexity facilities now have a much greater economic incentive to progress to the higher complexity facilities.

The agreement also includes several other beneficial features. For example:

- For the first time, NATCA and the FAA have agreed on the appropriate number of controllers necessary to operate the air traffic control system.
- Expensive compressed work schedules have been eliminated at virtually all facilities.
- The agreement provides for increased productivity through expansion of controller duties when they are not actually controlling air traffic.
- An innovative incentive is to reduce controller sick leave usage, thereby reducing the need for unscheduled overtime.
- Management's ability to change employee shifts rather than use overtime has been increased.
- Official time for union representatives is significantly reduced and controls tightened, freeing up additional available staffing.

To provide incentives under the new NATCA pay plan, an average of 4.75% increase in total controller compensation will be infused into the system each of the next three years. This equates to a \$200M increase over three years above the 1998 PC&B level for terminal and center controllers. No additional funds are provided for reclassification after the third year of the agreement. The PC&B levels remain constant after the third year except for Government-wide pay increases. The \$860M figure is derived from "rolling up" of the constant PC&B level reached after the third year for the 4th and 5th years of the agreement, and is largely a reflection of the length of the agreement. For example, if the agreement had been for ten years with no additional costs above Government-wide increases in the last five years, that would generally be considered a fiscally positive outcome for the Government. However, based on a "roll up" costing approach, those additional five years would be considered to have added \$1B to the cost of the agreement.

We have consistently maintained that, if in the FY 1999 budget the FAA receives the President's mark for the Operations Appropriation, we will accommodate pay raises within FAA resources.

Personnel Reform Evaluation

The report raises concerns about our perceived lack of objectives and expected outcomes in recrafting our personnel programs and system. It states that FAA has not identified the specific results we expect to achieve from these programs and that, therefore, the effectiveness of these programs is yet to be determined.

We have been very clear about our objectives. Our overarching objectives of personnel reform are that:

- FAA acquires, develops and deploys required expertise (people) where and when needed
- HR systems support employees' achievement of organizational goals
- FAA has more effective leadership and management
- FAA is perceived as a desirable place to work
- HRM systems are more efficient and adaptable.

In addition, for each of the major personnel program changes which we develop, we do identify the specific results and performance outcomes expected. We have already completed one interim evaluation and we have developed a comprehensive plan of evaluation of the core compensation pilot which specifically addresses the results and outcomes which will be formally measured. In addition, we are preparing to address to Congress and stakeholders the interim outcomes of all systemic changes made thus far.

The report also states that, although executive bonuses are to be based on achieving goals, these goals have not been approved. We have, however, established three strategic, agency level outcome goals in the areas of safety, security and system efficiency, along with other line of business specific outcomes, upon which incentive payments will be based -- or not given if the objectives are not met. Measurement of these objectives, which are of particular interest to Congress and stakeholders as well as the public, will serve as interim indicators of the success of this personnel system change.

Travel Reform

The report speaks of travel reform as if little has been done, stating that we may begin testing these initiatives using limited workforces.

We feel this greatly understates where we are. Now that the NATCA agreement extends travel reform to NATCA members, our plan is to implement travel reform agencywide, except for the employees of three small unions. (Agreements with other national unions have been in place for sometime.) With this implementation, 80% of the FAA workforce will be covered under travel reform. We are particularly proud that in implementing travel reform, we have incorporated all of FAA travel policy into one document, in plain language, and in simple question and answer format. This singles FAA out from other Government agencies in this regard.

Organizational Change Management

The report criticizes the FAA for perceived untimely and too slow action in making many personnel system changes, focusing on the fact that only 33% of the workforce will be covered by new compensation system pilots and that other personnel programs are still under development. The report also states concern with employees' views that personnel reform changes have not greatly impacted their ability to do their jobs.

FAA is making systemic change to programs and practices which go to the core of how we have managed this organization for years. And, we are looking at making changes to core issues for upwards of 49,000 people. Our research has revealed that good change management strategy dictates that when major, fundamental personnel changes are contemplated by management, the changes should be gradual, deliberate, and well communicated. We feel strongly about using the appropriate implementation strategy. We will expand pilots to cover more employees in a gradual, deliberate and well communicated manner.

Change management theory also generally prescribes that employees' perception of change is only developed over time, as more experience is gained with the change. The employee and manager surveys used to reflect employees' views of personnel reform impact were conducted either six months or one year after any personnel reform change was initiated. We believe that their reaction was an expected one, and that it will take longer before the impact of personnel reform change is fully realized by most employees and managers. These initial survey results will serve as baseline data in comparing future employee perceptions.

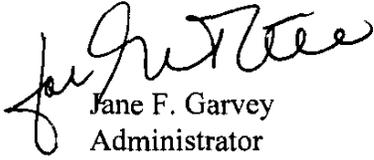
Human Resource Management Restructuring

I take reform of the FAA's personnel system seriously. I want to take full advantage of the opportunity we have to continuously improve and re-improve our human resource management programs and practices to make FAA the best performing Federal organization.

To recognize my commitment, I recently reorganized and created an office of Assistant Administrator for Human Resource Management, reporting directly to me and serving as a strategic partner on FAA's managing board. I feel strongly that this move will help FAA to make even more strides towards being the model personnel system for the Federal government.

We will use many of your report recommendations in fashioning our continued development of a new FAA personnel system. Thank you for considering these additional comments.

Sincerely,



Jane F. Garvey
Administrator