

OFFICE OF PERSONNEL MANAGEMENT

Proposed Personnel Management Demonstration Project; Pay For Applied Skills System; Department of Veterans Affairs (VA)

AGENCY: Office of Personnel Management.

ACTION: Notice of Proposed Demonstration Project.

SUMMARY: Title VI of the Civil Service Reform Act, 5 U.S.C. 4703, authorizes the Office of Personnel Management (OPM) to conduct demonstration projects that experiment with new and different personnel management concepts to determine whether such changes in personnel policy or procedures would result in improved Federal personnel management.

VA is proposing one demonstration project to initially cover two Veterans Benefits Regional Offices: New York and Detroit. Additional Regional Offices may be added during the duration of the project.

DATES: To be considered, written comments must be submitted on or before February 3, 1997; public hearings will be scheduled as follows:

1. Wednesday, January 8, 1997, 10:00 a.m. in New York, New York,
2. Wednesday, January 15, 1997, 10:00 a.m. in Detroit, Michigan. At the time of the hearings, interested persons or organizations may present their written or oral comments on the proposed demonstration project. The hearings will be informal. However, anyone wishing to testify should contact the person listed under **FOR FURTHER INFORMATION CONTACT**, and state the hearing location, so that OPM can plan the hearings and provide sufficient time for all interested persons and organizations to be heard. Priority will be given to those on the schedule, with others speaking in any remaining available time. Each speaker's presentation will be limited to ten minutes. Written comments may be submitted to supplement oral testimony during the public comment period.

ADDRESSES: Comments may be mailed to Joan Jorgenson, U.S. Office of Personnel Management, 1900 E. Street, NW, Room 7460, Washington, DC 20415; public hearings will be held at the following locations:

1. New York—Department of Veterans Affairs, Veterans Benefits Administration (VBA), New York Regional Office, Room 321, 245 W. Houston Street, New York, New York,
2. Detroit—Department of Veterans Affairs, VBA, Detroit Regional Office,

Patrick V. McNamara Federal Building, 477 Michigan Avenue, Room 1194, Detroit, Michigan.

FOR FURTHER INFORMATION CONTACT: (1) On proposed demonstration project: Rita Kowalski or Veronica Wales, Veterans Benefits Administration Regional Office, 245 W. Houston Street, New York, New York, 10014, 212-807-3050; (2) On proposed demonstration project and public hearings: Joan Jorgenson, U.S. Office of Personnel Management, 1900 E Street, NW, Room 7460, Washington, DC 20415, 202-606-1315.

SUPPLEMENTARY INFORMATION: The proposed project involves replacement of the classification and General Schedule pay systems with a compensation system which includes pay for applied skills and variable pay. It will also emphasize organizational and team performance instead of individual performance, and learning.

Dated: November 12, 1996.
Office of Personnel Management.
James B. King,
Director.

Table of Contents

- I. Executive Summary
- II. Introduction
 - A. Purpose
 - B. Problems with the Present System
 - C. Changes Required/Expected Benefits
 - D. Participating Organizations
 - E. Participating Employees
 - F. Union Involvement
 - G. Project Design
- III. Personnel System Changes
 - A. The Human Resource Process
 - B. Entrance Stage
 - C. Maintenance and Support Stage
 - D. Exit Stage
- IV. Training
- V. Conversion
 - A. Conversion of Employees into the Demonstration Project
 - B. Conversion of Employees out of the Demonstration Project
 - C. Skill Block/Grade Conversion Table
- VI. Project Duration
- VII. Evaluation Plan
 - A. Introduction
 - B. General Methodology
 - C. Three Phase Methodology
- VIII. Demonstration Project Costs
 - A. Budget Strategy
 - B. Step Buy-ins
 - C. Cost Controls
- IX. Required Waivers to Law and Regulation

I. Executive Summary

The project was designed by the New York Regional Office (NYRO), Veterans Benefits Administration, with the participation of the Department of Veterans Affairs (VA), the Office of Personnel Management (OPM) and the American Federation of Government Employees (AFGE). The purpose of the

project is to continue the organizational transformation already in progress and fundamentally change the human resource process so that the systems in the process focus upon the customers. The project focuses on three stages of the Human Resource Process: (a) the Entrance Stage that brings employees into the organization and introduces them to its mission, vision, values, and culture; (b) the Maintenance and Support Stage that includes everything that sustains, develops, and focuses employees upon serving veterans and their families and meeting its organizational outcome measures; and, (c) the Exit Stage that deals with issues affecting employees leaving the organization. The project will also test the effectiveness of skills-based pay on the organization's ability to meet its organizational goals and as a means of compensating employees for the skills and competencies that the organization needs and that they acquire, develop, and use. The demonstration project will be phased in at both the New York and Detroit Regional Offices. The NYRO will start with its Veterans Benefits and Services Business Line where most of its reengineering effort has taken place. The Detroit Regional Office will also begin in its Veterans Benefits and Services Business Line. Additional business lines will be added as they are reengineered during the course of the demonstration project.

II. Introduction

A. Purpose

The purpose of the project is to improve the delivery of benefits and services provided to VA's unique customers—veterans and their families; to provide the best value to American taxpayers; and to create a human resources system that enables employees to develop and apply the skills and competencies needed to better serve their customers. This improved service will be provided by self-directed work teams whose members are compensated based on the skills and competencies they acquire, develop, and use which support the goals and mission of the New York and Detroit Veterans Benefits Regional Offices.

B. Problems With the Present System

The Veterans Benefits Administration (VBA), a part of the Department of Veterans Affairs, provides benefits and services to veterans and their families. VBA has encouraged its Regional Offices to actively transform the way they do business and is now requiring them to use core organizational outcome measures to determine if they are

successful. The Regional Offices in New York and Detroit are involved in activities such as Total Quality Management (TQM), reengineering and organizational system design that focus on improving service to veterans and their families. Both Regional Offices have reengineered and streamlined their processes to emphasize the customer and provide faster turn-around of veterans claims. The new emphasis on customer service and organizational performance are not fully supported by the existing human resource systems. The hierarchical nature and physical structure of the existing General Schedule compensation and classification systems do not provide the flexibility and adaptability needed to move the Regional Offices forward in their reengineering process. The existing structures do not provide managers with the flexibility they need to structure teams so that they can function most effectively and they do not encourage employees to acquire a broader base of skills and competencies needed by the organization in order to provide one-stop shopping to the veteran customer and family and to address backlogs in benefit claims processing.

C. Changes Required/Expected Benefits

The VA Pay for Applied Skills Demonstration Project continues the extensive reengineering of work and structural systems already accomplished at the NYRO as a National Performance Review (NPR) reinvention lab and the organizational outcome measures developed and implemented at the NYRO as a Government Performance and Results Act (GPRA) pilot site. This project, since it is closely dependent upon the organizational outcome measures as defined by GPRA, will align human resource systems to business needs; design and test a human resource process that will support an organization reengineered around the customer; assess a human resource system that supports employee accountability, growth and ownership of organizational outcomes; and, provide demonstration project participants with the opportunity to test systems that meet project principles and operating guidelines, overall outcome measures, and mission requirements and customer needs of the organizations involved.

In addition to the expected benefits mentioned above, the following *key principles* are critical to the VA Pay for

Applied Skills Demonstration Project: (a) It is important for employees to continually focus upon the needs of veterans and their families; (b) Organizational goals help employees and the entire organization to recognize what is important and to know when they are successful; (c) The organizational outcome measures will define the types of human resource systems put into place, since they are the touchstone for all Regional Office systems; (d) The demonstration project will show how the organizational outcome measures that are envisioned in GPRA can help define human resource systems; (e) When developing mechanisms for monitoring organizational outcome measures, it is essential to bring the outcome measures to the employee's "line of sight" and at a level where each employee knows that he or she will be able to affect these outcomes; (f) While the Organizational Performance Management System and the Compensation System are key components of the demonstration project, these systems cannot be put into place alone. They have a dramatic effect on other systems within the Regional Office; (g) The Merit System Principles will be inherent in every aspect of the reengineered human resource process and systems; (h) Any policies and procedures developed will be streamlined, customer-focused, and designed so that authority is at the lowest possible level; (i) Policies and procedures will be developed with the belief that people want to do the right thing and that the systems developed will not be designed with the exception in mind; (j) The demonstration project will use the organizational outcome measures, as defined by GPRA, to help evaluate its effectiveness; (k) Policies and procedures developed will maintain budget discipline, be cost-effective and keep administrative costs down, since the needs of the American taxpayer must also be considered; (l) Employees and the union will be involved in developing human resource systems, since these systems exist because employees exist; (m) Customers and stakeholders may be involved in the project for ideas affecting design, operation or assessment; (n) Teams, or organizational units, do not compete against each other. Each team, or organizational component, competes against accomplishing the organizational outcome measures; (o)

Employees will be paid based upon the achievement of organizational goals and the development and application of the skills needed to meet those goals; and (p) The exploration of new ideas, creativity, flexibility and continuous improvement is a project norm. Ideas and options will be tested with the understanding that if something does not work, the organization will have learned from the experience and be willing to implement changes based on the experience.

D. Participating Organizations

The two Veterans Affairs offices initially participating in the project are: VA Regional Office, New York, New York
VA Regional Office, Detroit, Michigan

E. Participating Employees

The demonstration project in the Department of Veterans Affairs, Veterans Benefits Administration, will include all General Schedule employees in the Regional Offices in Detroit and New York. Each organization will phase in the project to meet its particular needs. Each organization will have the option of covering their entire organization and of phasing in the project during the initial three year period of the five year demonstration project.

For example, since NYRO is both an NPR reinvention lab and a GPRA pilot site, it is farther along in its planning for demonstration project implementation. In the NYRO, the demonstration project will cover the entire office and will incorporate the total human resource system described in this proposal. The project will be phased in, since the NYRO plans to continue its reengineering effort to include the remaining business lines and support activities. The NYRO will start with the Veterans Benefits and Services Business Line where most of the reengineering has taken place; however, the NYRO plans to reengineer its field and support elements and will incorporate this work into the demonstration project. It will also expand coverage to Veterans Homes and the Veterans Jobs Lines after the reengineering effort in these areas are completed and will include leadership positions covered by the General Schedule under the project. Figure 1 lists the series and positions currently in the business lines.

FIGURE 1: SERIES BY BUSINESS LINES

Series	Title	Benefits	Homes	Jobs	Support
180	Counseling Psychologist .....	.....	.....	4	.....

FIGURE 1: SERIES BY BUSINESS LINES—Continued

Series	Title	Benefits	Homes	Jobs	Support
201	Personnel Management Specialist/Officer .....	.....	.....	.....	4
203	Personnel Assistant .....	.....	.....	.....	4
303	Program Assistant	4	4	4	4
303	Program Support Clerk	4n	4	4	.....
305	File Clerk .....	.....	4	.....	4
305	Mail Clerk .....	.....	.....	.....	4
318	Secretary (OA) (Stenography/OA)	4n	4	4	4
322	Clerk-Typist	4n	.....	.....	4
326	Office Automation Clerk .....	.....	.....	4	.....
334	Computer Specialist .....	.....	.....	.....	4
340	Director/Assistant Director .....	.....	.....	.....	4
341	Administrative Officer .....	.....	.....	.....	4
342	Support Services Specialist/Supervisor .....	.....	.....	.....	4
343	Program Analyst	4n	4	.....	4
344	Management Assistant (Analysis) .....	.....	.....	.....	4
350	Copier/Duplicator Equipment Operator .....	.....	.....	.....	4
392	Telecommunications Assistant .....	.....	.....	.....	4
503	Accounts Receivable Assistant .....	.....	.....	.....	4
503	Fiscal Accounts Clerk/Supervisor .....	.....	.....	.....	4
510	Accountant .....	.....	.....	.....	4
511	Auditor .....	.....	.....	.....	4
525	Accounting Technician .....	.....	.....	.....	4
530	Cashier .....	.....	.....	.....	4
540	Voucher Examiner .....	.....	.....	.....	4
561	Budget Assistant .....	.....	.....	.....	4
602	Medical Officer (GS—Disability. Evaluation)	4	.....	.....	.....
930	Hearing Officer	4n	.....	.....	.....
962	Contact Representative	4nH	.....	.....	.....
963	Legal Instruments Examiner (Fiduciary Accounts)	4s	.....	.....	.....
996	Veterans Claims Examiner (Case Manager)	4	.....	.....	.....
998	Claims Clerk (Case Technician)	4	.....	.....	.....
1105	Purchasing Agent .....	.....	.....	.....	4
1165	Loan Assistant (Realty)/Specialist .....	.....	4	.....	.....
1170	Realty Specialist .....	.....	4	.....	.....
1171	Appraiser .....	.....	4	.....	.....
1715	Vocational Rehabilitation Specialist .....	.....	.....	4	.....
1801	Education Compliance Survey Specialist	4s	.....	.....	.....
1801	Education Liaison Representative	4s	.....	.....	.....
1801	Field Section Supervisor	4s	.....	.....	.....
2005	Supply Clerk .....	.....	.....	.....	.....

LEGEND

4=Found in Business Line.
 5=Field Position in VBSD.
 H=Medical Center/Outreach Field position in VBSD.
 n=Front office position in VBSD.

The NYRO is part of the Veterans Benefits Administration and has four business lines—Veterans Benefits, Veterans Homes, Veterans Jobs, and Support. It serves 1.2 million veterans in 31 counties and distributes over \$52 million in benefits every month. Its operating budget is \$17 million.

As of September 30, 1995, the NYRO employed 340 people in 36 occupational series. Their grades ranged from GS-3 to GS-15 while one position was in the Senior Executive Service (SES) (See Figure 1). Of these employees, 33.5% were veterans. Disabled veterans accounted for 10% of the veterans employed; Vietnam veterans accounted for 20.4% of the veterans employed.

In the NYRO, 48.7% of the employees were women, 12.8% were people with disabilities and 53.7% were minorities.

The minority representation was: 36.5% African Americans; 14.6% Hispanics; 2.3% Asian Pacific Islanders; and .3% Native Americans. The minority representation is significant, since it reflects the veteran population in New York City. The following chart depicts the number of employees in each series at the VA New York Regional Office as of September 30, 1995.

Figure 2: NYRO Series Distribution 9/30/95

Number	Series	Title
9	180	COUNSELING PSYCHOLOGIST
4	201	PERSONNEL MANAGEMENT SPEC./OFFICER
1	203	PERSONNEL ASSISTANT

Figure 2: NYRO Series Distribution 9/30/95—Continued

Number	Series	Title
12	303	PROGRAM SUPPORT CLERK/ASSISTANT
10	305	FILE CLERK/MAIL CLERK
9	318	SECRETARY (OA) (STENOGRAPHY/OA)
1	322	CLERK-TYPIST
1	326	OFFICE AUTOMATION CLERK
7	334	COMPUTER SPECIALIST
2	340	DIRECTOR/ASSISTANT DIRECTOR
1	341	ADMINISTRATIVE OFFICER
2	342	SUPPORT SERVICES SPECIALIST/SUPERVISOR
4	343	PROGRAM ANALYST

Figure 2: NYRO Series Distribution 9/30/95—Continued

Number	Series	Title
3	344	MANAGEMENT ASSISTANT (ANALYSIS)
1	350	COPIER/DUPLICATOR EQUIPMENT OPERATOR
1	392	TELECOMMUNICATIONS ASSISTANT
3	503	ACCOUNTS RECEIVABLE ASSISTANT
3	503	FISCAL ACCOUNTS CLERK/SUPERVISOR
2	510	ACCOUNTANT
1	511	AUDITOR
1	525	ACCOUNTING TECHNICIAN
1	530	CASHIER
1	540	VOUCHER EXAMINER
1	561	BUDGET ASSISTANT
2	602	MED OFFICER (GS-DISEVAL)
6	930	HEARING OFFICER
9	962	CONTACT REPRESENTATIVE
5	963	LEGAL INST EXAMINER (FID ACCTS)
143	996	VETERANS CLAIMS EXAMINER
58	998	CLAIMS CLERK
1	1105	PURCHASING AGENT
9	1165	LOAN ASSISTANT/SPECIALIST (REALTY)
3	1170	REALTY SPECIALIST
4	1171	APPRAISER
3	1715	VOCATIONAL REHABILITATION SPECIALIST
2	1801	ED COMPLIANCE SURVEY SPECIALIST
1	1801	EDUCATION LIAISON REPRESENTATIVE

The Detroit Regional Office is also part of the Veterans Benefits Administration and has three primary business lines—veterans benefits, home loans and job rehabilitations—as well as a support activity. The Detroit Regional Office serves over .95 million veterans in the State of Michigan and distributes over \$38.6 billion in benefits every month. The operating budget is \$11.8 billion.

As of September 30, 1995, the Detroit Regional Office employed 269 people in 35 occupational series. Their grades ranged from GS-3 to GS-15 with one position in the Senior Executive Service. Of these 269 employees, 34.8% were veterans. Disabled veterans accounted for 10.6% of all employees or 30.5% of all veteran employees; Vietnam veterans accounted for 28.2% of all employees and 81.1% of the veterans employed.

In the Detroit Regional Office, 54.7% of employees are women. Eleven percent are people with disabilities and 50.3% are minorities. The following

ethnic distribution existed: African Americans—48.7%; Hispanics—.08%; Asian Pacific Islanders—.04%; Native Americans—.04%. The minority representation reflects the population in the Detroit metropolitan area. The following chart depicts the number of employees in each series at the VA Detroit Regional Office as of September 30, 1995.

FIGURE 3: VA DETROIT REGIONAL OFFICE SERIES DISTRIBUTION 9/30/95

Number	Series	Title
5	180	COUNSELING PSYCHOLOGIST.
1	201	PERSONNEL OFFICER.
1	235	EMPLOYEE DEVELOPMENT SPECIALISTS.
1	301	OFFICE SYSTEMS MANAGER.
8	303	CLERK/PROG SPT CLK/PROG SPT ASSISTANT.
3	303	PROG SPT CLK (OA)/PROG SPT ASSIST (OA).
12	305	FILE CLERK/MAIL CLERK.
7	318	SECRETARY (OA).
13	326	OFFICE AUTOMATION CLERK/ASSISTANT.
2	334	COMPUTER SPECIALIST.
2	340	DIRECTOR/ASSISTANT DIRECTOR.
3	343	MANAGEMENT ANALYST.
2	357	CODING CLERK.
2	501	FINANCE OFFICER/ASSIST FINANCE OFFICER.
3	503	ACCOUNTS RECEIVABLE ASSISTANT.
3	503	FISCAL ACCOUNTS CLERK.
2	510	ACCOUNTANT.
6	525	ACCOUNTING TECHNICIAN.
1	530	TELLER.
1	561	BUDGET ASSISTANT (OA).
1	602	MED OFFICER (GS-DISEVAL).
9	905	GENERAL ATTY (VETERANS).
2	930	HEARING OFFICER.
1	950	PARALEGAL SPECIALIST.
34	962	CONTACT REPRESENTATIVE.
5	963	LEGAL INST EXAMINER (FID ACCTS).
2	986	LEGAL CLERK/ASSISTANT (OA).
1	990	CLAIMS EXAMINER.
74	996	VETERANS CLAIMS EXAMINER.
16	998	CLAIMS CLERK.
19	1165	LOAN ASSISTANT/SPECIALIST (REALTY).
1	1170	REALTY OFFICER.
5	1170	REALTY SPECIALIST.

FIGURE 3: VA DETROIT REGIONAL OFFICE SERIES DISTRIBUTION 9/30/95—Continued

Number	Series	Title
4	1171	APPRAISER.
6	1715	VOCATIONAL REHABILITATION SPECIALIST.
2	1801	ED COMPLIANCE SURVEY SPECIALIST.
9	1801	FIELD EXAMINER.
2	2005	SUPPLY TECHNICIAN.

(F) Union Involvement

The American Federation of Government Employees (AFGE) Local 138 represents employees at the Detroit Regional Office, while AFGE Local 1151 represents employees at the New York Regional Office. The Regional Offices are continuing to fulfill their obligations to consult and/or negotiate with the AFGE Locals in accordance with 5 U.S.C. 4703(f) and 7117. The participation with the Locals is within the spirit and intent of Executive Order 12871.

AFGE Local 1151 in the New York Regional Office has been involved with and has participated in the development of the project since its inception. As the Detroit Regional Office has become part of the project, Local 138 has also played an active role. The unions are an integral part of the demonstration project and will be full partners in the project.

The demonstration project will have a steering committee. In line with the Partnership Agreement, the unions will be represented on the Policy Board, local steering committees and any standing committees involved in the demonstration project.

G. Project Design

The demonstration project request is the result of a change process that the NYRO began 5 years ago. The NYRO is an example of the type of transformation process that VBA has encouraged. Furthermore, since it has been designated as a NPR reinvention lab and as a GPRA pilot site, VBA has used the NYRO to develop and test new ways of doing work and providing service to veterans and their families. Five distinct phases mark the NYRO's change process: Total Quality Management, the White House Study, NPR, GPRA, and the Interim Compensation Committee. Each phase is described below.

(a) Total Quality Management (TQM) (1990-92)

The following excerpt from "REINVENTION: History and

Guidebook" explains what the quality efforts had done for the NYRO by 1992.

They had trained over 83% of their workforce in the principles and mechanics of quality improvement and had established over 27 quality improvement teams to study and enhance their services. A cultural shift moved prevailing attitudes from "It's always done this way." to "Why do we do things this way?" Moreover, supervisors and managers had begun to change their leadership behavior from a "command and control style" to a more facilitating and coaching approach.* * * Employees kept up with a 23% increase in workload caused by a rise in the number of rules and procedures due to recent Court of

Veterans Appeals (COVA) decisions and the results of the Omnibus Budget and Reconciliation Act.

While the NYRO saw improvements, COVA and the Omnibus Reconciliation Act had complicated the claims process. It now took almost twice the time to process claims. Something more than incremental improvement was needed if the NYRO wanted to continue to improve service to its customers—veterans and their families.

(b) The White House Study (1992–1993)

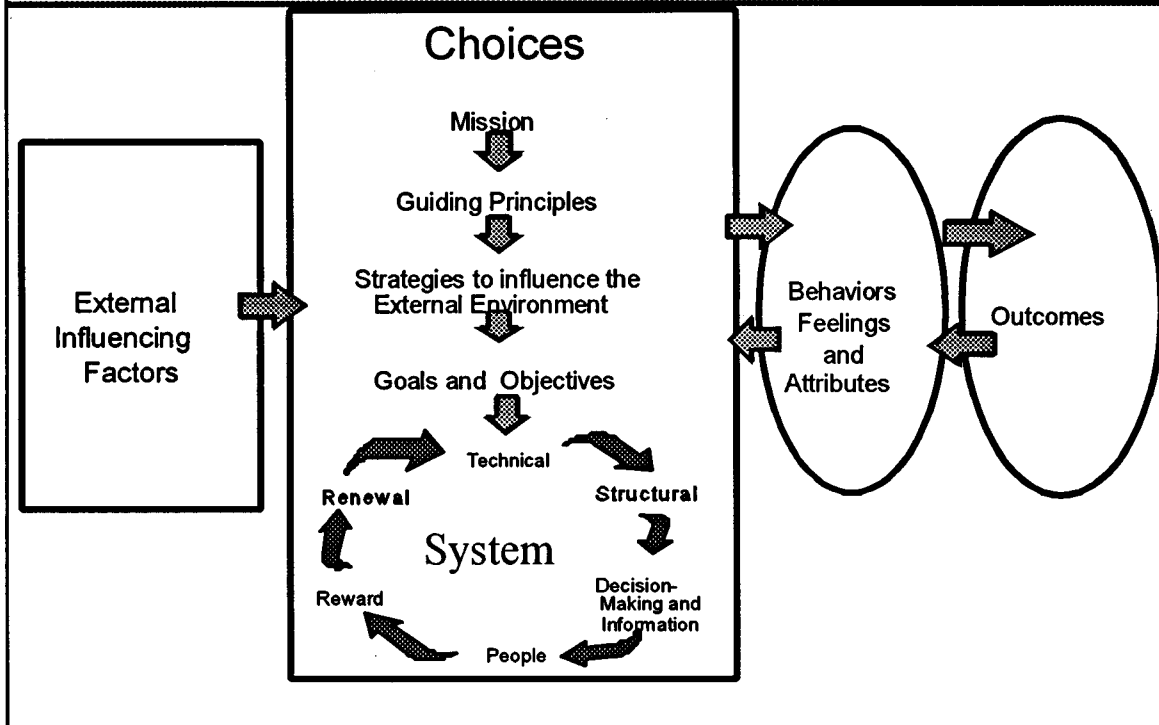
When the White House in conjunction with the Office of Management and Budget (OMB) began a special, three-year study to see how well quality improvement efforts could improve customer service, the Department of

Veterans Affairs selected the NYRO as one of the participants. For this study, the NYRO decided to reengineer claims processing. The NYRO used an Organizational Systems Design (OSD) Model for its redesign effort. This model (Figure 4) was a "framework" that helped organize the NYRO's thinking about how its organization functioned. The model helped the NYRO:

- Focus upon desired outcomes, or results;
- Recognize the impact of the external environment upon the organization;
- Understand the choices it could make about its mission, guiding principles, influence strategies, goals and objectives and organizational systems.

BILLING CODE 6325-01-P

Figure 4: Organizational System Design (OSD) Model



The design process required the NYRO to align all its organizational choices to its outcomes. The NYRO began with its work processes.

After one year of looking at technical and structural systems, it fundamentally redesigned the way it did its work with a case manager approach to claims processing that used self-directed work teams. It took 25% of its workload and established the Prototype Unit in 1993.

(c) National Performance Review (1993 to the present)

In 1993, Vice President Al Gore began his work with the NPR. The Department of Veterans Affairs nominated and the NYRO was designated an NPR reinvention lab.

The NYRO had begun its work by reviewing its technical and structural systems. On the basis of its analysis, it redesigned its workflow and its structure and decided to use self-directed work teams and a case manager approach to claims processing. On March 11, 1994, Vice President Al Gore presented the first National Performance Review Hammer Award to the New York Regional Office. The NYRO Reinvention Lab received the award for its efforts in improving customer service. The Hammer Award recognized a measurable improvement in customer service. The national standard for customer service required Regional Offices to see veterans in 30 minutes; the waiting time had dropped to under 3 minutes.

(d) Government Performance and Results Act (GPRA)

The OSD model focused the NYRO upon outcomes and measures. As a result when VA began looking for a pilot site, the NYRO was a logical choice. The NYRO was committed to the OSD model and wanted its outcome measures to tell the organization how well it was serving veterans. Becoming a GPRA pilot site enabled the NYRO to focus upon its information and measurement systems. As a result, as soon as the NYRO had completed reengineering its technical and structural systems, it began a one year effort to develop new organizational performance measures. The old information and measurement systems had VA Central Office, OMB, Congress and the General Accounting Office (GAO) among its stakeholders. The new information and measurement system added customers (veterans and their families), employees, and taxpayers to the list of stakeholders. The new core measures are:

Speed, a modification of the old Timeliness standard,

Accuracy, a modification of the old Quality measure,

Customer-based measures, a new measure supporting the Secretary's *Putting*

"*Veterans First*" initiative and the National Performance Review,

Employee development measures, a new measure supporting organizational learning, and

"*Cost-per-claim*," a unit cost measure that replaced Productivity.

The NYRO considers all measures in its "*Balanced Scorecard*" approach and will use them to drive Regional Office planning. (See Appendix A for a detailed description of the measures.) The "*Balanced Scorecard*" has become the focal point of assessing how well the NYRO is serving veterans and their families. The core measures found in the scorecard drive the station's performance. Furthermore, VBA has adopted the core measures for nationwide use.

The core measures help define the business and clearly explain what the NYRO feels is important. This new way of doing business emphasized for the NYRO why the human resource systems needed to be aligned with the organization's new measurement system. The lessons learned in the NYRO GPRA Pilot Program showed that the current pay system had no relationship to organizational performance. The current compensation system was position-based and did not fit an organization where teamwork, learning new skills and collaboration were essential.

(e) The Interim Compensation Committee

As part of the reengineering effort, the NYRO had combined numerous positions into two: Case Manager and Case Technician. While this change was made, issues involving advancement, growth and development in the new work environment had not been addressed. The NYRO formed the Interim Compensation Committee (ICC) that included representatives from the teams and the union to look at this problem. The Committee developed an Interim Compensation System that established core skills, skill blocks and the combination of skill blocks that the team members would need to demonstrate before being promoted. They also had developed a certification procedure for promotion.

The ICC's work was recognized in May 1995 when the committee received a National Performance Review Hammer Award. What is most significant about this effort is that it was driven by the organization's needs and is so clearly

tied to the NYRO's organizational outcome measures.

The ICC results also made it very clear that the NYRO needed to request demonstration status from OPM to align its human resource system with its organizational goals and culture.

III. Personnel System Changes

A. *The Human Resource Process*

"Ultimately, the results HRM processes achieve must be synonymous with organizational success. Recent studies in the private sector have established a linkage between progressive HRM practices and the firm's financial performance. These findings make a strong case for HR to concentrate its efforts on those activities that add value to organizational performance."

The above quotation from the study, *Innovative Approaches to Human Resources Management: Implementing Real Change in Human Resources Management*, published by the National Academy of Public Administration, July 1995, clearly explains why it is essential to align human resource systems to organizational outcome measures. Human resource systems exist because customers and employees, who deliver service to customers, exist. The human resource systems must support the organizational outcome measures and add value to the benefits and services VBA provides veterans and their families. The project proposal identifies basic principles and operating guidelines as well as options the Regional Offices may use. The demonstration project process will be evolutionary and flexible so it will be able to support changing organizational, employee and customer needs and expectations. *The demonstration project will refer to team and team members, but to add flexibility to the offices involved in the project these terms can also be applied to work unit and work unit members.*

The human resource process has three stages: The *Entrance Stage* that brings employees into the organization and introduces them to its mission, vision, values and culture; the *Maintenance and Support Stage* that includes everything that sustains, develops, and focuses employees upon serving veterans and their families and meeting its organizational outcome measures; and, the *Exit Stage* that deals with issues affecting employees leaving the organization.

The following chart provides another explanation of the human resource process and a more complete

explanation of each step of the process follows:

Demonstration Project Human Resource Innovations

Entrance Stage

Selection and Placement
Orientation and Assimilation

Maintenance and Support Stage

Role Description
The Compensation System
Skill-Based Pay
Variable Pay
Organizational Performance Management
Learning
Performance Feedback
Learning Contract
Recognition

Exit Stage

Reduction-in-Force
Exit Interviews

B. Entrance Stage

Selection System

The Regional Offices will use a selection process for both external and internal candidates that is aligned to the organization's measures and values and that will include core competencies needed to successfully function in a customer service environment. The basic principles and the operating guidelines for the selection system are:

(a) The selection process will focus on hiring individuals committed to serving veterans and their families; (b) The selection process will use organizational values in establishing competencies for its business lines; (c) The selection process will follow Merit System Principles and apply veterans' preference; (d) Team, or work unit, members will be fully involved in selecting future members; and (e) All procedures developed will be streamlined, customer-focused and cost effective, keeping administrative costs at a minimum.

Instead of the traditional occupational series, the selection system will place people in business lines which are Veterans Benefits, Veterans Homes, Veterans Jobs and Support. Selections for the business lines will be based on the core competencies and the knowledge, skills and abilities needed for those business lines. All applicant sources will be used to ensure that the Regional Offices find the best qualified candidates who are able to serve veterans in a team environment.

The process will use a rating mechanism that will assess the experiences and ability of the applicants to provide veterans and their families

with excellent service. The process will identify the necessary and desirable job-related knowledge, skills and abilities which support the organization's goals and values. The process will then assess how well candidates meet those requirements, using a review of individual applications and one or more of the following tools: (a) A structured interview process involving members that will use organizational measures and values as the anchors for the interview process; (b) An interview or assessment process that will focus on core competencies, such as communications, customer service, flexibility and innovation, which are the people and business skills critical for quality customer service; (c) An assessment process to determine the applicant's ability to work on a team providing service to veterans and their families; (d) Teamwork and partnership involvement in the selection process; and (e) A pre-appointment visit to a team for external applicants to help them understand what it is like to work on a team.

This assessment process would serve several purposes: (a) The applicants would get an idea of what it is like to work on a team; (b) It would provide a way to rate applicants based on concrete situations; and (c) Team members would own the process and have a stake in the quality of the candidates selected.

The assessment process would be used for all external hires to the team. The Regional Offices will have the option of having examining authority delegated to them.

Selection for coach and leadership will require a special, competitive selection process. All coach and leadership positions will require the use of an assessment process that will evaluate the individual's ability to provide leadership in a team environment and will assess the applicants on how well they can serve in the leadership role. The leadership roles include: coach, facilitator, process champion, and organizational strategist.

Orientation and Assimilation

Veterans and their families are the reason VA exists. Working in a team environment that is customer-focused requires a special degree of commitment and caring from the employees involved. For this reason, an orientation to the organization's unique mission, vision, values and organizational outcome measures and goals is essential.

Upon joining the Regional Office and one of its business lines, the new team or work unit member will be required to undergo an orientation and assimilation

program that will include: (a) The Mission and Vision of the Department of Veterans Affairs and the partnerships existing within organizational components of VA; (b) The Mission and Vision and Values of VBA and the Regional Offices; (c) The History of VA and Veterans Benefits; (d) Veterans Awareness—An Overview of the Concerns and Needs of Veterans; (e) *The Balanced Scorecard or a Similar Organizational Tool*—The Core Measures and How to Contribute to the Success of the Organization; (f) The Team, or Work Unit, Member's Role in the Organization; (g) An Overview of the Human Resource Process Supporting the Team or Work Unit Member; (h) The Compensation System—Pay for Applied Skills and Variable Pay; (i) Learning Contracts and Skills Acquisition; (j) Diversity, Sexual Harassment and Other Required Training; (k) The Union and Partnership; and (l) Team Skills.

The new team member will have a learning contract developed that will identify the training he or she will receive and will have a peer trainer, or mentor who will help the new person with the transition into the organization and the team environment.

C. Maintenance and Support Stage

Role Description

Every team member should understand how he or she works on a team that is customer focused and how he or she contributes to organizational outcome goals, to service delivery and to the organization and the team. The purpose of a *role description* is to focus on the customer rather than upon control and authority. Teams will develop the role descriptions and review them during their renewal meetings that are held semi-annually to assess progress and establish organizational, team and self-development goals for the year. The role description will include: (a) the *customer*—veterans and their families; (b) the *process* used to provide service; and (c) the *measures* and values of the organization.

The following chart identifies questions to be answered by the role description:

Questions the Role Description Will Answer

Customer Profile

Who are your customers?
What do they need or want?

Capability Profile

What is necessary for you to perform these functions at an optimal level (primary capabilities)?

Resource Profile

From whom do you receive resources (e.g., Materials, information, money, etc.)?

What do they provide you?

Value-Added Profile

How do you utilize these resources to serve your customers (i.e., Primary accountabilities)

Team Profile

How do you know if you are supporting your team?

What do you have to do to serve your customers?

Performance and Capability Profile

How do you know if you are performing your services well (i.e., primary performance measures)?

Skill Block Profile

What skill blocks are needed for this role?

The role description will help the team member understand how he or she supports organizational performance.

Compensation System

"If you develop skills we need, apply them in ways that help the organization succeed and behave in accordance with organizational values, the organization will provide a challenging work environment, support worker development toward employability and reward contribution." Peter Drucker, *Post-Capitalist Society*.

The total compensation or pay system is an important indicator of what an organization believes is important to its success. A well-designed compensation system provides a battery of tools to support organizational goals and outcomes. The design should be strategic, flexible, nimble and customer-focused. The current compensation system, because it was implemented in a piecemeal fashion for a hierarchical, functional organization, does not relate to emerging business needs and is static, cumbersome and hidebound. The demonstration project will test a compensation system that is able to change based on the needs of the entire organization, of the taxpayer and of the customer being served.

Parts of a Compensation System

A compensation system consists of base pay, variable pay and indirect pay. Since indirect pay covers employee benefits such as retirement and insurance which statute excludes from demonstration projects, indirect pay will not be included in the demonstration project. The demonstration project will cover only

base pay and variable pay as defined below:

(a) *Base pay* is a set salary and focuses on the strategic value of the skills an individual learns and applies in support of the organizational outcome measures.

(b) *Base pay* initially will only include a *Pay for Applied Skills System*.

(c) If the demonstration project develops the necessary organizational maturity and ability to work in an environment where organizational outcome measures are the focus of every member, the project will design and implement a phase that will be a "*Pay at Risk*" option for handling annual pay adjustments. This addition will provide employees an opportunity to increase their *base pay* by all or part of the annual adjustment only if the organization is successful. *Base Pay at Risk* will be another tool considered for the organization to use. It will help the entire organization develop and practice the behaviors needed to be successful and strategically focused. Until this innovation is adopted, employees will be entitled to the full general increase.

(d) *Variable pay* which includes incentives, bonuses, gainsharing plans and goal sharing plans "** * ** is any form of direct pay that is not folded into base pay and that varies according to performance." (Schuster & Zingheim, 1992). Funding will come from the traditional awards funding process, but a later phase of the project may use funds following a gainsharing formula based on savings that may be used to support payouts based on meeting projections identified through a goalsharing plan.

Both base pay and variable pay will focus upon the organizational outcome measures. The proposal includes options for both base pay and variable pay which the Regional Offices may use during the project.

Overview of Base Pay

For the demonstration project, *base pay* will include the following:

(a) *Pay for Applied Skills* is the foundation of the compensation system. It is a skill-based pay system that will pay employees for the skills they learn and use to support the mission of providing benefits and services to veterans and their families. It will set a value on the skills based on their strategic use and impact upon providing benefits and services to veterans.

(b) *Base Pay at Risk* is base pay that varies based on organizational performance. The project includes an option to implement *Base Pay at Risk*. It is not part of the project's initial implementation but may be considered for use later in the project. This could

involve using the annual pay adjustment under 5 U.S.C. 5303, or part of this increase, as part of an incentive strategy tied to accomplishment of organizational goals. It is another tool that a mature organization can use to help shape its strategic organizational behavior.

Overview of Pay for Applied Skills

Pay should reflect and support what is important to the organization. In a skills-based pay system, skills and competencies a person learns determines that person's pay. In a *Pay for Applied Skills System*, the skills and competencies a person learns and uses become the basis for pay. A *Pay for Applied Skills System* aligns very well with VBA's organizational outcome measures and, in particular, those measures dealing with employee development. In addition, since a *Pay for Applied Skills System* works well in a high employee involvement organization, the structural and organizational systems adopted or being adopted in the Regional Offices also will fit this type of change.

Pay for Applied Skills—General Features

Pay for Applied Skills will be base pay. The following are its basic principles and operating guidelines. When implemented, it will: (a) Pay employees for the skills that they have acquired and used, and that have been certified; (b) The number of employees that may be certified (concurrently) for each skill block and groups of skill blocks will be based on employees' ability to learn and apply the skills and on mission requirements (e.g., organizational goals, workload) and may change over time as conditions warrant; (c) Include a certification process to verify acquisition and application of skills; (d) Be tied to organizational planning through the employee development measures; (e) Provide flexibility to respond to changing work requirements at the Regional Offices; (f) Provide leadership skill blocks that will emphasize the importance of leadership in a flattened organization and that will provide a bridge between these skills and the skills found in the business lines; (g) Involve employees in the development of the compensation system; (h) Provide the options of a temporary payment (differential pay) for skill blocks when the organization knows the use of a skill is not permanent (e.g., a team member could receive differential pay for instructing); (i) Allow employees to understand how learning and applying the skills they learn can affect their pay; (j) Focus upon

keeping administrative costs at a minimum, since cost is one of the organizational outcome measures and will be included in the project's evaluation plan; (k) Include a *pay back* period during which the employee will normally not receive training for the next skill block so that they can concentrate on fully mastering the new skill for which they have just been certified to pay back the organization for the investment it has made in their training. This does not apply to lump sum skill blocks. The length of time will be determined by the skill block's complexity; (l) Provide that the employee will, whenever possible, be given every opportunity to acquire, apply and be certified for a new skill block if the organization loses the need for an existing skill block due to such things as new legislation, a reorganization, loss of a function, or new technology. The situation described is a reduction-in-force (RIF) and the RIF procedures in Part III-D of this plan will apply.

Skills and Competencies. The definition of skills and competencies for this demonstration project are as follows: (a) *Skills* are the technical, work, or process skills needed for the specific business line. In the Regional Offices, the four business lines are Veterans Benefits, Veterans Homes, Veterans Jobs, and Support. (b) *Competencies* are the people and business skills which are just as critical as the technical skills to quality customer service. These focus upon personal characteristics which an employee can develop and will need if the organization will be successful. These include such things as communications, flexibility, customer focus and team orientation.

Skill Levels. Pay for Applied Skills will have three skill levels. Because of the nature of the skills involved, it may be possible for skills to be at only one level: (a) *Fundamental Level*—This level consists of skills that are used for the most basic, continuing assignments, or are those needed to progress to the proficient and expert levels, to begin moving towards self-management, and to develop as a team member; (b) *Proficient Level*—This level consists of skills that are essential for the business process and allow the employee to independently complete with speed and accuracy the full range of tasks and assignments needed for the business process involved and to function as a full team member; and (c) *Expert Level*—This level consists of skills needed for the most complex business processes and assignments and that demonstrate the ability to perform in a

manner showing a complete knowledge of their concepts, principles, and applications. It also includes those skills needed for providing guidance, instruction and advice to others in all skill and competency areas.

Skill Blocks. *Skill blocks* consist of *skills*: (a) Each *block* will focus on specific areas of expertise/knowledge needed to perform assignments; (b) *Blocks* (when appropriate) may fall into one of three *skill levels* (Fundamental, Proficient, and Expert) based on the complexity and scope of the skills involved; and (c) The *value* of the *skill blocks* will be set by the organization and tied to the Organizational Measures dealing with employee development, (for example, in the NYRO, the Technical Skills Matrix will form the basis for the technical or work skill blocks). (d) The value of a skill will depend upon the organization's future need for the skill that such things as customer needs, stakeholder requirements, and changes in technology will help determine; and (e) An employee will receive *Pay for Applied Skills* when he or she has learned and applied all of the skills found in one or more skill blocks.

Competency Block. Competency blocks consist of the people or business skills needed at each skill level. While the competency blocks have no monetary values assigned to them, employees must demonstrate the potential to acquire and use competencies before moving into each skill level. In New York, the Team Development Matrix and the Individual Needs Analysis Survey will help define competencies. In addition, employees must demonstrate the people or business skill identified for each competency skill block before advancing to the next skill level. For example, before advancing into the proficient skill level, an employee must have demonstrated the competencies listed under competency block C1.

Skill Paths. Pay for Applied Skills may use *skill paths* to show progression and movement through the system. *Skill Paths*: (a) Show the options for acquiring skill blocks in the organization that will be based on the organization's needs and the employee's developmental needs, and as defined by its outcome measures; (b) Emphasize horizontal and lateral movement rather than the traditional hierarchical progression of career ladders; (c) Encourage flexibility in the ways employees acquire and learn new skills; and (d) Emphasize the importance of investing in the development of employees to help support the

organization's performance and outcome measures.

Leadership Skill Blocks. The leadership skill blocks will supplement the Business Line Skill-Based Pay Model by including positions formerly covered by the GS 14, Step 1 to GS 15, Step 10 pay range. They will provide a bridge to the Business Line Skill-Based Pay Model by linking with the coach skill blocks. Competitive procedures will be followed for movement into these skill blocks, since the organization will limit the number of individuals applying these skill blocks. As in the case of the coach skill blocks, a formal assessment process will be required also for the leadership skill blocks. The leadership skill blocks will continue to be critical to organizational success even as the organization becomes flatter and team members broaden their capabilities. The leadership skill blocks are based upon the Office of Personnel Management's Leadership Framework that covers traditional supervisory, managerial, and executive jobs.

The leadership skill blocks provide the leadership skills that support the business lines. These skills are critical to the coach, facilitator, process champion and organizational strategist roles. The leadership skill blocks will include coaching, facilitation, change management, business management and organizational systems management. As with the skill blocks found in the Business Line Skill-Based Pay Model, the leadership skill blocks will be flexible and will change with organizational needs. However, movement into these skill blocks will be competitive, since the organization will limit the number of individuals applying these skill blocks.

The Business Line Skill-Based Pay Model

The Business Line Skill-Based Pay Model is the basic model for the business lines. The model, shown in Figure 5, is a template that the New York Regional Office developed and will be applied to all the business lines, although the number of skill blocks may vary by business line. While the skills, competencies, and levels presently reflect those required to process and pay veterans claims, the same basic model with perhaps a different number of skill blocks will also be used to reflect the skills required for the Veterans Benefits, Veterans Home, Veterans Jobs, and Support Business Lines. The model is not static, but will change as skill blocks are added, deleted, or modified. In addition, the model may vary from Regional Office to Regional Office depending upon organizational needs.

The model also provides a bridge to the leadership skill blocks that replace the traditional supervisory and management functions. The pay range for the leadership skill blocks will be from GS 14, Step 1 to GS 15, Step 10, only to accommodate the few remaining managerial positions that still exist within the organization and to recognize that organizational needs may dictate the need for additional leadership skills.

BILLING CODE 6325-01-P

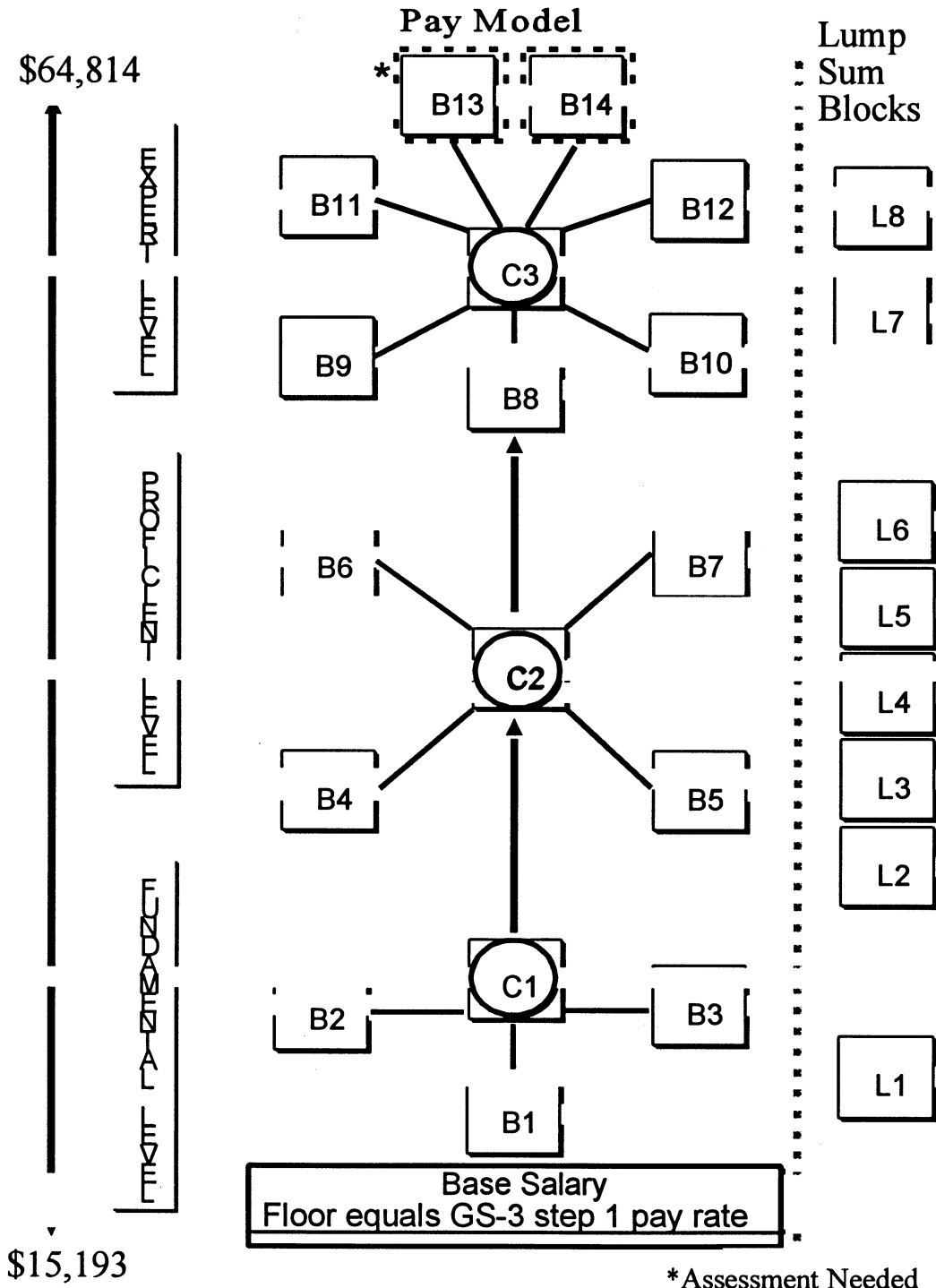


Figure 5: The Business Line Skill-Based Pay Model

Skill Blocks. Currently, the New York Regional Office's Business Line Skill-Based Pay Model consists of twenty-two skill blocks and three competency blocks: (a) *Seventeen* blocks are used for setting *continuing base salary*; (b) *Fourteen* of these skill blocks consist of *technical skills*. An employee's pay may increase as he or she acquires and demonstrates the technical skill blocks, assuming the skills are needed by the organization; (c) *Three* are competency blocks, which are *people skills*; and (d) The remaining *eight* skill blocks represent opportunities for lump-sum payments.

As necessary, the number and the composition of the skill blocks may change to respond to organizational requirements or to reflect refinements in the *Pay for Applied Skills System*.

The Levels. The seventeen blocks, used to set continuing base pay, are divided into three levels: (a) *The Fundamental level.* This first level consists of four blocks: one competency block and three technical skill blocks. Technical skills at this level enable employees to process mail, obtain evidence and maintain files. All four of these blocks must be mastered before advancement to the proficient level; (b) *The Proficient level.* This middle level consists of five blocks: one competency block and four technical skill blocks. Technical skill blocks include those skills essential to processing compensation and pension claims, making and documenting administrative decisions, and counseling veterans. Again, an employee must master all the blocks at this level before advancement to the next or expert level, and (3) *The Expert level.* This top level includes nine blocks: one competency block; and five skill blocks relating to the most complex functions of the claims adjudication process, (e.g., authorization or quality assessment and ratings or medical decisions).

There will be a bridge from the coach skill blocks at the expert level to the leadership skill blocks. The leadership skill blocks will require competitive selection, and the use of these skill blocks will be restricted.

Lump-Sum Blocks. The eight lump-sum blocks consist of skills required to perform tasks or functions which may last for a limited period of time or tasks which only one or two members of the team need perform in support of the team. The teams may rotate these functions or tasks periodically. This rotation will give all team members the opportunity to both gain the skills within the block and receive a one-time payment for utilization of those skills. The one-time payment would be based on the monetary value of the block and the length of time the skills are applied.

Pricing of Competency or Skill Blocks. The following guidelines will be followed for pricing competency and skill blocks: (a) The competency blocks will have no dollar values placed on them; however, acquisition of all the necessary competencies at any level will be required for advancement to the next higher level. For example, to advance to proficiency level, an employee must acquire all competencies at fundamental level, and (b) A monetary value will be assigned to each of the twenty-two skill blocks, based on its importance to the organization and its complexity. The value of skill blocks will be determined by several factors, including the demand for the skills, the difficulty of obtaining them, and the complexity of the tasks. Generally, the higher the level, the more valuable the skill block. For example, the expert level skills represent the most complex functions within the claims adjudication process.

Pay Model Pricing. Excluding the leadership skill blocks, the pay range selected for the Business Line Skill-Based Pay Model as applied to the Benefits Line is GS-3, Step 1 to GS-13, Step 10. This range reflects the grades of those employees who will initially be covered by the demo (i.e., GS-3 to GS-13). The GS-3, Step 1 pay rate will serve as the floor of the model and GS-13, Step 10 will serve as the ceiling.

The skill-based pay range (GS-3/1 to GS-13/10) for the business lines will be divided between the three levels and dollar values will be assigned to the various skill blocks based on organizational need at the time of

conversion. The system will be modeled using one or two teams and assessing the skills of every team member and then applying the dollar values of the skill blocks to each team member to evaluate potential impact of the skill-based pay model on the employees and the organization. The skill block dollar values will be adjusted based on the results of the model and in consideration of the value of the skill block to organizational need.

Skill Block Progression (General). As is mentioned in the previous paragraph, an employee must have mastered all the technical skill blocks and the competency block in one level before progressing to the next level. (NOTE: In very unusual circumstances to meet organizational needs, an employee who has not acquired all the skill blocks at a particular level may be asked to acquire a block at a higher level.) Additionally, certain skill blocks within the fundamental and proficient levels are prerequisites for other blocks at the same levels; however, both the proficient and expert levels permit more than one career path for progression among the blocks. Certification of skill possession in a block an employee is currently utilizing would result in a compensation increase equal to the dollar value of the skill block.

Examples of Progression Through Skill Blocks. In Figure 6, the Progression or Skill Path Model, shows various options for skill acquisition and progression through the skill and competency blocks. The following are examples of how an employee will progress through the model.

(a) *New Recruit.* Newly hired case managers would begin their progression at the fundamental level that includes three skill blocks B1, B2, and B3 and one competency block C1. While an individual organization may, based on its need, require the acquisition of the skills in one block before another, this is not a requirement at the fundamental level.

BILLING CODE 6325-01-P

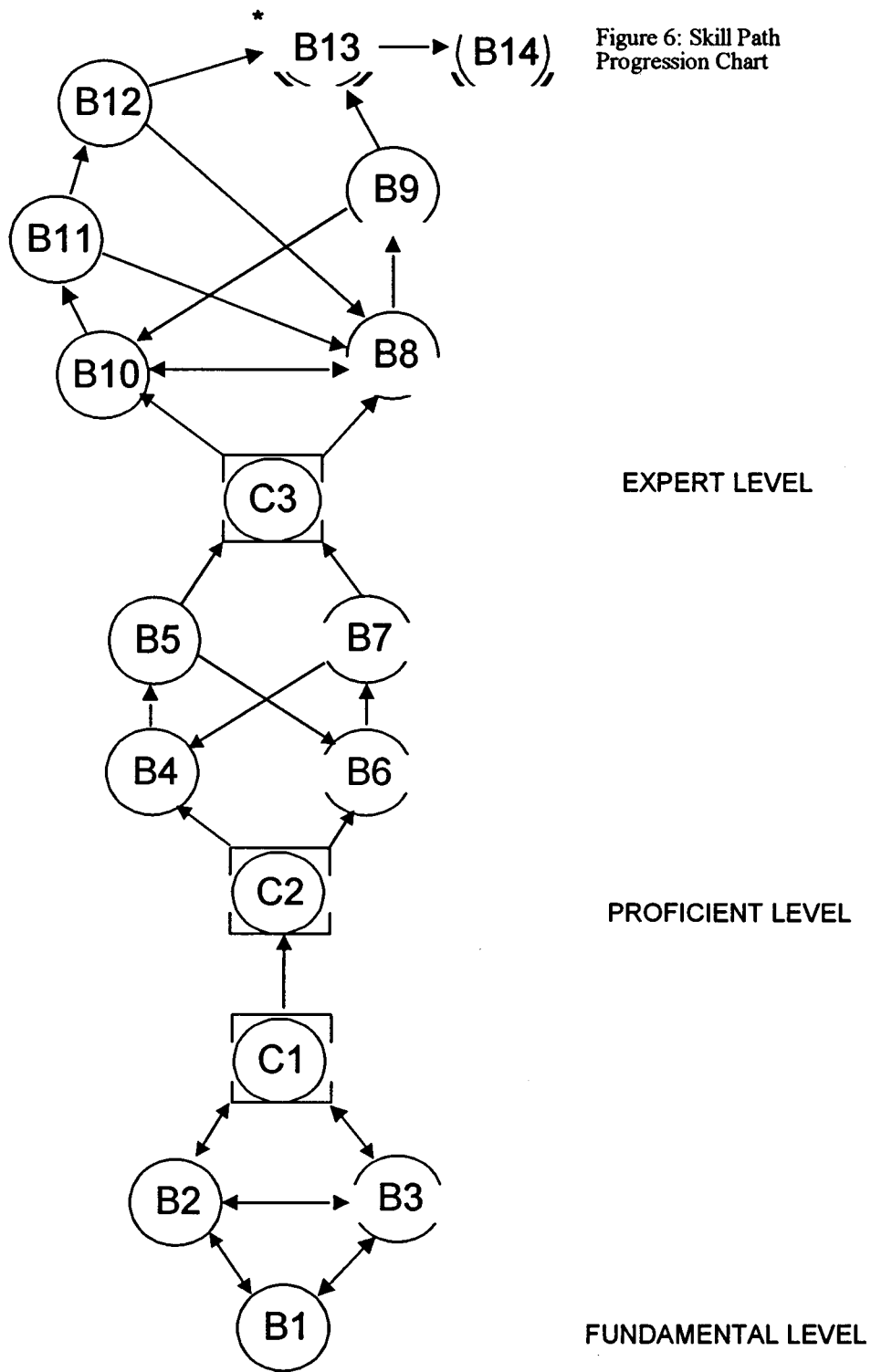


Figure 6: Skill Path Progression Chart

EXPERT LEVEL

PROFICIENT LEVEL

FUNDAMENTAL LEVEL

* Assessment needed

For example, an employee could begin with B1 (Mail, File and Control), B2 (Development), B3 (Transition), or C1 (Competencies). As indicated by the arrows, the new case manager could tackle the skills blocks in the order of his or her choice. The case manager would have to demonstrate all of the skills and competencies at the fundamental level before progressing to the proficient level.

For entry into the proficient level, the employee must demonstrate the potential to perform all of the competencies listed under C2. At the proficient level, the employee could first undertake B4 (Compensation and Pension) or B6 (Counseling). The skills described in B5 (Adjudication) would likely be more easily acquired after acquisition of the skills in B4. B7 (Counseling) requires a breadth of counseling skills not required by B6. B6 would, therefore, serve as a prerequisite for B7. The case manager would have to acquire and demonstrate the skills and competencies (C2) of the proficient level before progressing to the expert level.

Again, Figure 6 shows the options for movement at the expert level. B8 (Quality Assessment) is a prerequisite for B9 (Advanced Quality Assessment). B10 (Medical Decisions) is a prerequisite for B11 (Medical Decisions) and B12 (Medical Decisions). While an employee could move into B13 after completing the proficient level, the move into B13 (Coaching) would require an organizational need for someone to assume a coaching role, competition and a formal assessment. B13 is a prerequisite for B14 (Advanced Coaching). Movement into the leadership skill blocks would require competitive selection.

(b) *Current Employee.* Placement for existing employees into the *Pay for Applied Skills System* will require an assessment of each employee's skill level. Credit for the skill block will only be granted when the employee possesses all of the skills listed for that skill block.

For example, an employee worked as a Veterans Benefits Counselor for 3 years prior to 1993. In 1993, she was placed on a team and became a Case Manager. The employee previously possessed the skills described in B6 and B7. In the last three years, as a Case Manager, the employee acquired the skills in B1, B2, B3, B4, B5 and a portion of B8. The employee has demonstrated the competencies at the C1 fundamental level, but has not yet demonstrated them at the C2 proficient level. The employee is currently a GS-9.

Upon transition into the *Pay for Applied Skills System*, the employee would receive compensation based on the value of B1 through B7. The employee would not be compensated for B8 until he or she possesses and demonstrates the competencies described by C2 at the proficient level and all of the skills for B8.

(c) *Transferred Employee.* Employees transferring into the *Pay for Applied Skills System* would be assessed in the same manner as existing NYRO employees. The employee transferring into the NYRO would be paid for the skill blocks when all of the skills in the block are possessed and demonstrated, subject to organizational need. Sources of information could include in-depth team interviews, work samples and detailed input from previous supervisors.

Certification and Recertification Process

The *Pay for Applied Skill System* will include a *certification/recertification process* that will determine whether or not the employee has the skills required for a particular skill set.

The certification process may include a variety of techniques that will take into consideration the growing complexity of skills needed. The certification process will reflect the skills identified in the employee development measures.

General Principles and Operating Guidelines for Certification and Recertification: (a) The process will be developed with employee involvement and input in line with the Partnership Agreement; (b) The process will be linked to the learning plans developed by the teams and the organization; (c) Partnership principles will be key to the success of this process; (d) The process will adjust to changing organizational requirements as well as to the need of team members for development and advancement in terms of the breadth, depth, and lateral growth of skills; (e) The process will provide a systematic way to identify skills that are needed or no longer needed in the organization; (f) The process will provide a way to know whether or not the employee continues to use and maintain a skill or competency for which he or she had previously been certified; (g) Certification will be systematic and will use consistent and objective measures; (h) The process will make clear to employees the skills for which they are being paid; (i) Accountability and oversight will be at the team level; (j) Team review of performance could include determination of which skills are no longer needed; (k) The process will reflect the learning needs identified

by the employee development outcome measures; (l) The certification process will be evolutionary and will move towards a mix of work samples, and peer reviews geared to the level of performance. An exploration of options is an important part of the project; (m) The certification process may use levels of difficulty or development to select assessment tools. These could be defined as follows:

Expert—Peer reviews, work samples, joint work or interviews; *Proficient*—Peer review process using work samples, joint work, testing or interviews; and *Fundamental*—Self-Certification with peer concurrence; (n) Pay will increase only after the employee has acquired, used and demonstrated performance of the skills through the certification process; (o) An employee will not be able to undergo certification for the skill immediately after training. *Pay for Applied Skills* will establish specific time frames for certification based on the complexity of the skills involved and upon input from team members; (p) Organizational needs will help identify the need for skill block acquisition; (q) The opportunity to be certified for a skill block will be managed based on organizational need; and (r) Team members will help determine who within the team will receive training for new skills.

Special Circumstances in the Certification and Recertification Process

(a) The situation where the organization no longer needs a skill and decides to discontinue a skill block, i.e., discontinue as no longer needed, is a Reduction-in-Force. The process found in Part III-D pertaining to Reduction-in-Force will be followed.

(b) If the organizational performance review leads to the determination that an individual team member may have a performance problem, the certification process may be used to help determine whether or not the employee has maintained the skills he or she needs. The certification process will not replace the organization's responsibility to resolve a performance problem.

(c) The certification process will help ensure that employees maintain the skills needed to provide benefits and services to veterans and their families. The certification process could be triggered by the peer assessment process or result from a coach review. If the employee is unable to be recertified for a skill for which he or she was previously certified and for which the organization has a need, the process described in the *Organizational Performance Review Process* under Part

III. *Personnel System Changes* will be followed.

Base Pay at Risk

Base Pay at Risk will provide a tool to use organizational success as a way to increase base pay. This will occur only if the organization has shown success and has developed confidence in using variable pay incentives based on organizational outcome measures. It will include: (a) Using part of the annual adjustment under 5 U.S.C. 5303; (b) Involving all members in developing the formula used for the addition to base pay, and (c) No reductions in base pay.

Note: *Base Pay at Risk* is an option that may be considered in the future, but is not part of the demonstration project's initial implementation.

Variable Pay

Overview of Variable Pay. Variable pay will provide not only an organizational reward structure, but it will provide the organization with a way to compensate members for special skills needed to meet work and customer requirements. Variable pay is not base pay. It provides a one-time, lump-sum payment to an employee that is not included in base pay. For the demonstration project, variable pay will not only be used for incentives, but as a way to deal with special workload requirements, and as a bonus when appropriate for the acquisition of critical skills or competencies, or to meet other special organizational needs that may develop during the project.

Variable Pay as an Incentive. As an incentive, variable pay will base awards on how well organizational goals are met and will include a form of goal sharing as an important component.

Phase One will use *team awards* based on how well the core teams, or comparable group of work units, and the Regional Office achieve goals. This type of award is similar to the group awards currently authorized under existing law; however, the award structure will provide a way to provide greater payouts if the entire organization meets its organizational outcome goals.

Phase Two will involve *goalsharing*. Goalsharing evolved from *gainsharing*. Goalsharing includes not only efficiency as seen in the speed measure, but effectiveness as seen in the customer service, employee development and cost measures. Unlike *Phase One*, goalsharing would be funded from savings, using a set formula and based on the "unit cost" core measure. It would differ from *Base Pay at Risk*, since it would be a one-time payment and not be part of the employee's regular salary.

Features of *Incentive Variable Pay*. Variable pay will provide an *organizationally focused incentive structure* tied to organizational measures and the "Balanced Scorecard." Variable pay as an incentive will meet the following general principles and operating guidelines: (a) It will be Pay at Risk since payment will depend upon how well the organization meets its goals; (b) It will not reinforce competition between individual teams, but will use the core teams as the minimum unit for incentives. The payouts will occur at the core team level and up to the whole organization; (c) It could evolve from a group incentive system to a full goalsharing plan based on the accomplishment of organizational goals using a pre-determined formula. Team members will be involved in the development of the goalsharing plan as will the union partners; (d) Payments will be made for results related to the following organizational measures: Speed, Cost, Customer Based Measures, and Employee Measures; and (e) Accuracy is not used, since the organization wants to encourage employees to find errors. However, accuracy measures will be included as part of the Organizational Performance Review Process described in Section III of this plan.

Variable Pay for Workload Flexibility. This option will provide the Regional Office with a way to use "one-time" lump-sum payments or a continuing differential pay to meet special organizational needs. These payments will not become part of base pay and will not become long-term costs. The following are examples of variable pay used to provide workload flexibility.

(a) As a lump-sum payment, variable pay will provide a way to pay team members for rare skills not generally needed throughout the organization or needed infrequently. Employees could bid for work that the organization needs for short periods of time in order to meet special workload or customer requirements. This might include special projects or special field assignments.

(b) As a lump-sum payment, variable pay could also be used to pay employees for new or developing skills identified by the organization until the continuing need for the skill is determined, and

(c) Variable pay will provide a way to pay team members for work an organization needs to meet special work or customer requirements which are expected to last for a significant period but not become permanent work of the organization. An example would be a team member who functions as a coach

during the absence of the regularly assigned coach because of long-term illness. It could also be used to compensate employees who serve as instructors on a major training effort.

Organizational Performance Management

In October 1990, the *General Accounting Office (GAO)* issued the report, *PERFORMANCE MANAGEMENT: How Well Is the Government Dealing with Poor Performers*. GAO concluded that under the performance management system "identifying and dealing with poor performers * * *" was often " * * * a difficult and time-consuming task * * *" and that it was " * * * unfair to expect managers and supervisors to operate in an environment where identifying and dealing with poor performers tends to be much more difficult than it needs to be."

This GAO report dealt with performance appraisals in a traditional organization where each employee received an individual performance rating from his or her supervisor. While it was always assumed that the employee's performance standards were clearly tied to the organization's mission, the employee's "line of sight" between his or her work outcomes and those of the organization was often too great or too nebulous.

GPRA provides an opportunity to improve the employee's "line of sight" to the organization's outcome measures. In an environment where teamwork is encouraged, valued and expected, the team, or work unit, sets goals based on the organizational outcome measures. Because each team member's "line of sight" is initially limited to his or her team, the team member will be able to understand more readily how his or her work affects the work of the entire organization.

The demonstration project will test organizational performance management's link to individual performance and contribution by using data collected for the "*Balanced Scorecard*," or similar organizational tool, and the continuous improvement process inherent in an environment where teamwork is encouraged. Organizational Performance Management is directly linked to and literally supports the compensation system. The basic principles and operating guidelines of organizational performance management are: (a) If the Regional Office does well, employees do well; (b) The organizational outcome measures are the focus of every member; (c) Every member of the organization is

responsible for contributing to the success of the organization; (d) Every member must understand and be able to explain how his or her performance contributes to the organization's success; and (e) Teams and coaches, or other organizational equivalents, will assess individual members in terms of contribution to the organizational outcome goals.

Organizational Performance Review Process

Organizational performance management is a continuous process that goes on throughout the organization. In a traditional setting, information concerning an organization's performance and the process involved in setting and reviewing goal accomplishment is generally considered to be in management's purview. The demonstration project will utilize the process of "Open Book" management that was developed by the NYRO GPRA pilot site following its organizational system design model. This is a high involvement strategy that includes every employee in some aspect of collecting, reviewing, and assessing information about performance at all organizational levels. This process involves reviews at three levels, focuses upon the "Balanced Scorecard," or its equivalent, and is data-driven. Since employee involvement is critical to the success of any organizational performance system, the Detroit Regional Offices will develop a system that will meet organizational needs and the general guidelines and operating principles of the project. The system developed by the NYRO that may be used as a model is outlined below.

Regional Office Level Review. The Regional Office's progress is reviewed at weekly team goal meetings, at bi-weekly Director staff meetings, at quarterly reviews of the organization's Quality Plan, and at semi-annual renewal sessions. The "Balanced Scorecard" and

the goals set in the Quality Plan support each other and focus everyone on improving service to veterans and their families.

Team Level Review. The team will evaluate its own performance against the measures reflected in the "Balanced Scorecard" and will assess how well it is contributing to the success of the organization. The team not only works towards its own goals, but also works towards improving the success of other teams as well as the success of the entire organization.

Team Review Process. Each team conducts weekly goal meetings during which the team assesses how well it met the weekly goals it had set for itself. Since the goals relate to the "Balanced Scorecard," the organizational outcome measures, the team members understand how their work fits into the work of the entire organization at the Regional Office, division, and core team levels.

The team review process provides each team member with specific, concrete data for the organizational outcome measures and the weekly goals the team sets to support the organizational goals. Since the discussion looks at the causes for meeting or failing to meet the weekly team goals, each team member develops a real sense of how he or she contributed to the outcomes the teams produced during the week. The process is designed to develop individual accountability and ownership for the outcomes being achieved with feedback from both the coach and the team members. The assessment requires specific responses that include corrective action or additional help. There is a consequence for every action that does not support organizational performance. In addition, each team member is expected to learn to prepare and present data at the team goal meeting. Each team member also has a role in determining the team's goal for

the next week. Because organizational outcome data is reviewed and discussed weekly, the employee never loses sight of the organization's goals and mission and of the team's contribution to the core group, the division and the Regional Office. Following this process, performance management becomes organizational rather than individual.

Team Member Level Review. The teams will also assess how each team member contributes to the achievement of the organizational measures. The assessment helps to determine the individual performance rating.

Team Member Review Process. The team members will assess each other to determine how well each person is contributing to the achievement of organizational goals. The team will evaluate team members twice a year on such categories as: Output, Customer Service, Reliability, Team Support, and Accuracy.

In offices with highly developed teams, team members will help define the behaviors for each rating level. An initial option will be to define the levels as follows:

GREEN ZONE = Contributes to Achieving Organizational Goals

AMBER ZONE = Needs to Improve Efforts to Meet Organizational Goals

RED ZONE = Does Not Contribute to Organizational Goals

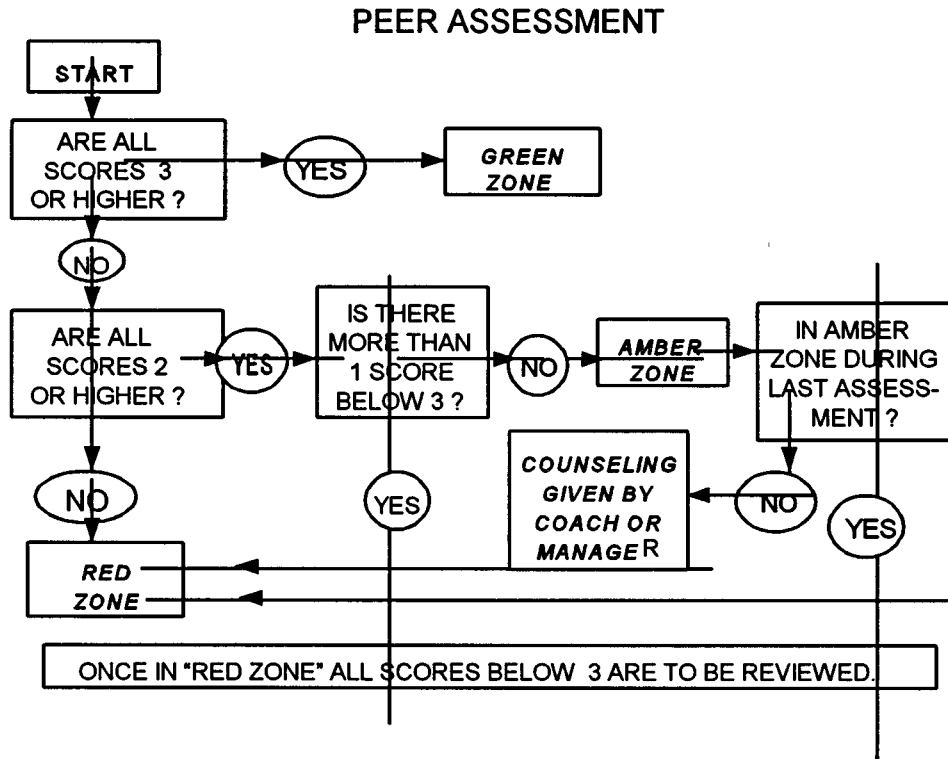
Action Options Based on Team Member Ratings. Based on the ratings, these are the options for taking action (See Figure 7—Peer Assessment Options).

GREEN ZONE

The team member and coach will prepare a Learning Contract for the year. The Learning Contract will include developmental activities selected to strengthen the employee's skills and to increase the organization's ability to meet its goals.

BILLING CODE 6325-01-P

Figure 7: Peer Assessment Options



AMBER ZONE—First Time in Amber Zone

The coach, whose role is to move the team to self-direction, will discuss the ratings with the employee and counsel him or her on areas for improvement. This is important, since the Amber Zone is unacceptable. The coach will give the team member assistance to improve. The coach and the team member will develop a Learning Contract that will include developmental activities designed to help improve his or her contribution to the organization as well as to help his or her individual growth. The areas for improvement may *include*

technical skills, or competencies. The following are possible activities: (a) Reading, (b) Special Team Assignment or Project, (c) Output Goals, (d) Formal Training, (e) Peer Training, (f) Specific Behaviors to model and practice; and (g) Assignment to a Mentor, or Peer Advisor.

The team member and coach will determine the specific days they will meet to discuss how well he or she is meeting the goals set in the Learning Contract. This will help the team member set improvement goals for himself or herself.

AMBER ZONE—Second Time in Amber Zone

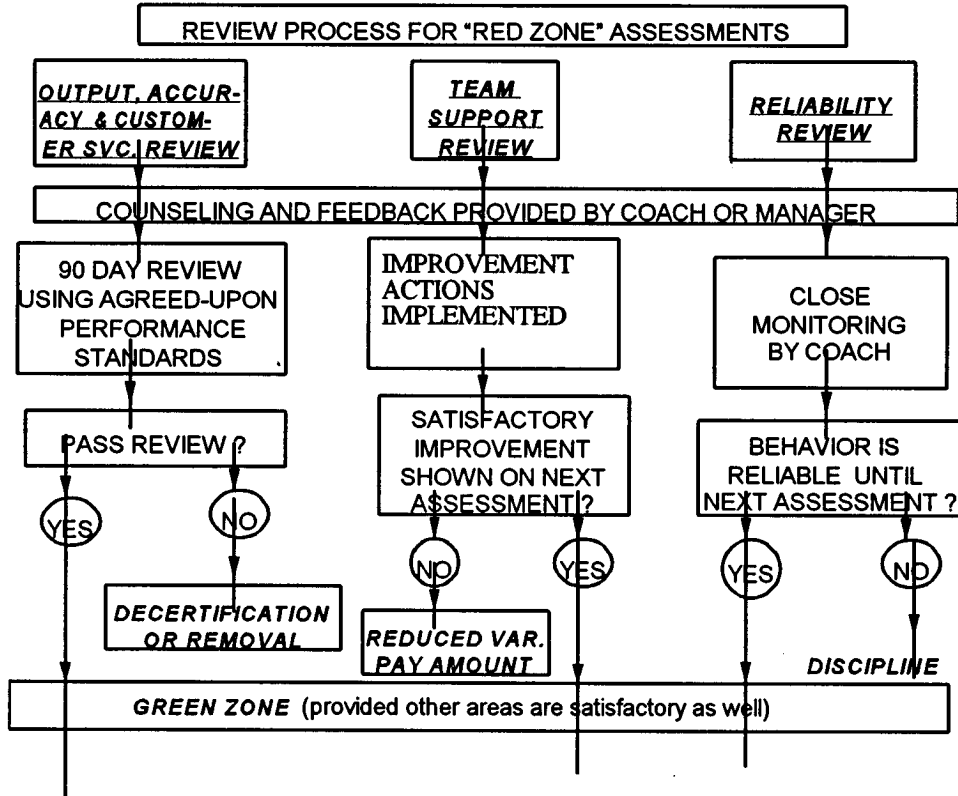
If the team member goes into the Amber Zone for a second time in a calendar year, the team member automatically moves into the Red Zone.

RED ZONE

If an employee is in the Red Zone, the coach will become more actively involved with the team member. As the flowchart, "Review Process for 'Red Zone' Assessments" (Figure 8) shows, the action taken will vary with the category involved.

BILLING CODE 6325-01-P

Figure 8: Review Process for "Red Zone" Assessments



(a) If *output, accuracy or customer service* are involved, the coach will place the team member under a 90 day review using individual performance standards;

(b) If *team support* is involved, the coach will help the team member identify improvement actions; or

(c) If *reliability* is involved, the coach will discuss how the team member's behavior needs to improve and will closely monitor the team member's behavior.

While a performance improvement plan will be used to document how the team member has to improve in the areas of output, accuracy and customer

service, a learning contract could be used to document the actions the team member will take or the behavior the team member will practice to eliminate the problem. The Red Zone Action Chart (Figure 9) identifies the action to be taken, the documentation needed, and the possible consequences for these situations.

FIGURE 9: RED ZONE ACTION CHART

Category	Counseling	90 Day review and standards and performance improvement plan	Learning contract	Action if there is no improvement
Output	Yes	Yes	No	Decertification or Removal.
Customer Service	Yes	Yes	No	Decertification or Removal.
Reliability	Yes	No	Yes	Discipline or Adverse Action.
Team Support	Yes	No	Yes	Reduced Variable Pay Amount.
Accuracy	Yes	Yes	No	Decertification or Removal.

Out-of-Cycle Assessment. If at any time based on observation or team feedback a team member's performance or behavior does not meet team or organizational expectations, an out-of-cycle assessment may be done. Based on this assessment, corrective action, if required, will be taken.

Appeal Process. Existing appeal rights to the Merit Systems Protection Board, the negotiated grievance procedure, or the administrative grievance procedure will continue for adverse actions. Decertification due to the inability to do a particular skill block may be appealable through an internal certification appeals process that will be established in line with the Partnership Agreement. In addition, the employee would have the right to appeal a decertification action to the Merit Systems Protection Board as a reduction in pay as provided for in 5 CFR § 1201.3(a)(2).

Individual Performance Ratings

All employees will receive an annual performance rating in terms of how well they contribute to and support organizational goals. The ratings will be pass or fail. Employees will receive a rating of pass, unless through the Organizational Performance Management System they receive a rating of fail or are unable to be recertified in the appropriate skills.

Learning

Since employee development is one of the organizational outcome measures, learning is an important organizational activity. Learning is more than just classroom training; it involves feedback, goal setting, self-development activities as well as classroom and peer training. The general principles and operating guidelines for learning are: (a) Every

person is accountable for his or her own development and growth; (b) Learning is tied to organizational goals and needs; (c) The 360° feedback system will provide honest feedback from co-workers and will help define areas for improvement;

(d) The organizational employee development measures form the basis of the organization's training plan; (e) Learning supports the certification and recertification process; and (f) To develop and implement a career development, education and training strategy that supports the organizational measures and values, the Learning process will include *performance feedback* and *Learning Contracts*.

Performance Feedback. Performance feedback will provide all employees with information on their contribution to the organization's performance. It will also help them identify their training and developmental needs by pinpointing areas to strengthen and improve that they could include in their Learning Contracts. The system will use 360 degree feedback from: (a) The Coach, (b) Peers, and (c) Customers.

The feedback mechanism will help team members to identify learning objectives and could provide information on where to focus skill acquisition. It would also help focus the team members on team development. The performance feedback system is tied to learning.

In addition, team members will participate in group feedback exercises during periodic training. The training will allow team members to practice and develop face-to-face feedback skills. It will include providing constructive feedback, reacting to feedback and improving listening skills.

Learning Contract. Every team member will have a Learning Contract

that will consider needs identified by the employee development measures, the performance feedback system and the Certification/Recertification System. There will be learning activities identified for each skill block and each developmental level in the organization. Activities could include: (a) On-the-job assignments and reading assignments to support growth; (b) Formal training sessions that would support learning specific skills needed for development and growth; (c) Feedback and evaluation mechanisms to measure learning as it relates to the organization's goals and measures; (d) Mentoring to help support developmental efforts and to provide support and feedback as needed; (e) Individual learning plans that identify activities for which the individual team member will be accountable to meet learning objectives; (f) Team learning plans to identify the things a team will follow to foster team development; (g) Methods to reinforce personal accountability for learning; (h) Special Projects (HRM, Planning, Instructing, ADP, Public Relations, etc.); (i) Sabbaticals; (j) Exploring recognition/variable pay incentives that would supplement special learning activities; and (k) Team members will be accountable for learning and the organization will be accountable for fostering a learning environment.

Recognition. Recognition activities provide team members and the organization with the opportunity to celebrate the successes of team members, teams and the organization. These efforts are often non-monetary. The teams will help to determine the types of recognition efforts that will be used. The recognition efforts will support the organization's outcome measures. Based on the need and

purpose, this could consist of the following: (a) Organization wide celebrations; (b) Honorary Awards; (c) Special Group Awards; (d) Team Specific Individual Awards; (e) Core Team Specific Awards; (f) Suggestion Awards; (g) On-the-Spot Awards; (h) Special Developmental Opportunities; and (i) Time-Off Awards.

D. Exit Stage

Reduction-in-Force

Reduction-in-Force (RIF) will be strategic and closely tied to organizational needs. While the current RIF process will remain essentially the same, the demonstration project will require adjustments to reflect skills, since positions will no longer exist.

The basic principles and operating guidelines to be used for an RIF are: (a) Veterans preference will remain an important factor in the RIF procedure

developed; (b) Employees will be assigned a role code relating to the role they play in the organization. For example, the roles in the NYRO's Veterans Services and Benefits Division are Case Technician, Case Manager and Coach. Role levels will replace the current competitive levels; (c) Keeping in mind that service to veterans is paramount, any RIF will be a strategic RIF focusing on organizational outcome measures. For this reason, the organization will use certified skills and competencies as key factors in establishing any retention register. The organization will identify the skills having the greatest value and assign to them greater points when establishing a retention register. For example, the Regional Office may need to retain individuals who are certified as having medical decision skills or development skills. The points designating the value

the skills have in the organization will be published annually; (d) In an RIF, retention will be determined as follows:

- Tenure of Employment. Groups will be established for career, career-conditional and all other employees.
- Veterans Preference. (Military preference subject to section 3501(a) of Title 5.) Sub-groups will be established for veterans having a compensable service-connected disability of 30% or more, all other preference eligibles, and all others.
- Performance Ratings, Core Group Rating, Skills and Competencies, and Length of Service will be used to establish the retention register scores. Credit for military service subject to section 352(a) (A) and (B) of title 5. The Retention Register Point Chart (Figure 10) provides information on the point system.

FIGURE 10.—RETENTION REGISTER POINT CHART

Factor	Point system				
Individual performance rating	Pass—10 points; Fail—0 points				
Core group (as concept matures)	Number of core groups	One	Two	Three	Four
	Met stretch goal	4	8	12	16
	Met station goal	2	4	6	8
	Did not meet goal	0	0	0	0
Skill block certification	Points Set Annually and Published				
Length of service	1 Point for Each Year Based on Service Computation Date				

(e) To determine assignment rights between positions covered by the demonstration project and positions not covered by the demonstration project, grade level equivalents for groups of skills blocks will be used; (f) In an RIF, which could be either a reduction in the number of employees needed in a particular skill block or a reduction in the number of skill blocks needed by the organization, an employee will be offered when possible the opportunity to be trained in a new skill block that is equal to the skill block being lost. The employee would receive retained pay including the full amount of any general pay increase during the period of training. When the training is completed, the employee would have to go through the certification process to demonstrate he or she is able to apply the skill. If he or she is certified, he or she would be paid for the equivalent skill block and retained pay would end. If the employee fails to obtain certification, the employee will be placed on indefinite pay retention and will receive one-half of any general pay increase until such time as the "true" rate equals or exceeds the retained rate

of pay. (g) If an employee cannot be offered a skill block that is equal to the skill block being lost, but can only be offered a new skill block that is of lesser value, the employee would be given the opportunity to learn the new skill and to be certified for the application of the new skill block. During the period of training necessary to be eligible for certification in the new skill block, the employee will retain his or her existing rate of pay and the full amount of any general pay increase. If the employee passes certification, the employee will receive pay for that skill block. In addition, the employee will be placed on indefinite pay retention and will receive one-half of any general pay increase. If the employee fails to obtain certification, the employee will be placed on indefinite pay retention and will receive one-half of any general pay increase until such time as the "true" rate equals or exceeds the retained rate of pay. (h) If an employee cannot be offered any skill block to replace the skill block lost, but is certified in skill blocks the organization still needs, the employee is entitled to indefinite pay retention and will receive one-half of

any general pay increase until such time as the "true" rate equals or exceeds the retained rate of pay.

In determining an involuntarily separated employee's entitlement to severance pay, the definition of "reasonable offer" applicable to employees covered by the demonstration project will be included in this section of the final plan that will be published in the Federal Register notice and provided for in VA's operating procedures for the demonstration project.

Employees involved in an RIF would have appeal rights to the Merit Systems Protection Board. Employees would use the internal Certification Appeal process for all certification actions; this appeal process will be developed in line with the Partnership Agreement.

Exit Interviews

Exit interviews are an evaluation tool that: (a) Will provide for the organization and the teams, feedback from individuals who are leaving the organization or the teams, and (b) Will help evaluate systems the Regional Office has put into place that affect customer service and employees.

The process could include a survey that will ask employees who are leaving the organization or a team with feedback tied into organizational measures, team development, and individual development. Exit interviews could also provide assessments of the compensation system and the other supporting human resources systems in use in the organization.

IV. Training

As part of the implementation process, all employees will attend an orientation session on the new Human Resource Process that will include demonstration project requirements, timeframes for phasing in segments of the project, an explanation of how the project will affect them, and future training requirements.

To understand how the systems will affect them, employees will receive in-depth training on: (a) Pay for Applied Skills; (b) Variable Pay; (c) The Certification and Recertification Process; (d) Organizational Performance Management; (e) Learning Contracts; and (f) Performance Feedback.

Employees involved in the certification process, peer training, mentoring or in the selection system will also receive in-depth training to help them understand their responsibilities.

Coaches will receive training in mentoring and their responsibilities under the new systems.

V. Conversion

A. Conversion of Employees Into the Demonstration Project

The following procedures are used for converting existing employees from the General Schedule (GS) system to the demonstration project's *Pay for Applied Skills System*. They address employees who are converted in place at the beginning of the demonstration project and also GS employees from other organizations who enter the project through lateral transfer or reassignment after the project is underway. No such employee will suffer a reduction in pay at the time of conversion into the project. If conversion into the demonstration project is accompanied by a geographic move, the employee's GS pay entitlement in the new geographic area will be determined prior to converting the employee into the project.

Skill Assessment

Before being covered by the *Pay for Applied Skills System*, affected employees will undergo a skills assessment to determine which skill

blocks and competencies they possess. On-board employees converting in place at the beginning of the project will be assessed 30 to 60 days prior to conversion as part of their pre-conversion training. The employee's base pay will be set based on this assessment. Employees who enter the project after initial conversion through transfer or reassignment either from within the demonstration project sites or from outside will have their skills assessed to determine their base pay when entering the project, subject to organizational need.

Pay Protection

If the base pay of an on-board employee under the GS system immediately before conversion exceeds the base pay set by the skills assessment, the employee will be allowed two years to become certified in additional skills in order to justify his or her pay level at the time of conversion. The employee will continue to receive their existing base pay (pay continuation) and receive the full general increase during this two-year period. If at the end of the two-year period, the employee's rate of pay exceeds the base pay justified by the certification process, the employee will be placed on indefinite pay retention and will receive one-half of any future general pay increases until such time as the "true" rate equals or exceeds the retained rate.

Employees who either lateral into the *Pay for Applied Skills System* or transfer from another organization after the initial conversion to the system will also undergo a skills assessment in order to determine their base pay. For those employees who lateral into the demonstration project from within Veterans Affairs, if the existing rate of basic pay exceeds the base pay rate set by the skills assessment process, the employee will be allowed two years to become certified in additional skills in order to justify his or her pay level at the time of conversion. The employee will continue to receive their existing base pay (pay continuation) and receive the full general increase during this two-year period. If at the end of the two-year period the employee's rate of pay exceeds the base pay justified by the certification process, the employee's pay will be reduced to the level that reflects the actual skills attainment. For those employees who transfer from another organization outside of the Department of Veterans Affairs, the organization will have the flexibility to provide pay continuation at its option.

Locality Pay

Locality pay will be an add-on payment that will remain separate and distinct from the *Pay for Applied Skills System*. This will be consistent with the way in which locality pay is handled for employees under the General Schedule. As with GS employees, locality pay will be considered base pay for certain purposes but not for others as indicated in 5 CFR 531.606 (b).

Special Salary Rates

Special salary rates will no longer be applicable to demonstration project employees. Upon entering the project -by conversion in place or by lateral reassignment or transfer-special salary rate employees will undergo a skills assessment, as provided above. To set a special rate employee's base pay (including pay continuation, if applicable), his or her GS pay must first be converted. The employee's initial base rate under the demonstration project is derived by dividing the employee's highest GS adjusted rate of pay (i.e., special rate or locality rate) by the applicable locality pay factor for the employee's official duty station. A full locality adjustment will then be added to the employee's new demonstration base rate. Thus, the employee's locality-adjusted rate under the demonstration project will equal the employee's former highest GS adjusted rate of pay. Adverse action and pay retention provisions will not apply to the conversion process because there is no change in total salary. If the employee's converted rate of base pay exceeds the base rate set by the skills assessment, the employee will be allowed two years to become certified in additional skills in order to justify his or her pay level at the time of conversion. Any pay continuation or pay retention (as described in the preceding section) will apply to the converted base rate.

Step Buy-Ins

For employees who are converted in place at the beginning of the demonstration project— at the time of conversion, each converted employee will be given a lump-sum cash payment for the time credited to the employee toward what would have been the employee's next within-grade (step) increase under 5 U.S.C. 5335. (See section VIII.B. for additional details.)

B. Conversion of Employees Out of the Demonstration Project

If a demonstration project employee is moving to a GS position not under the demonstration project, or if the project ends and each project employee must be converted in place back to the GS

system, the following procedures will be used (prior to movement or conversion out of the demonstration project and any accompanying geographic movement, promotion, or other simultaneous action) to determine the GS grade and converted GS rates of pay (including any locality rate or special rate).

Grade Conversion

When an employee is converting back to the GS system, the employee's GS-equivalent grade under the demonstration project at the time of conversion must be determined. The *Pay for Applied Skills* level and the skill blocks and competencies possessed by the employee will be used to determine the GS-equivalent grade. (See the Skill Block/Grade Conversion Table in section V.C.)

For employees leaving the demonstration project for a position at another organization, the gaining organization may request a statement of comparison between demonstration project levels and corresponding GS grades to attach to their application. Eligibility for outside positions will be determined by the outside organization based on the information in the employee's application as is true in the GS system. The GS converted grade will be used in applying GS pay administration rules (e.g., promotion

rules); it is not necessarily the grade the employee will have at the gaining organization.

For conversions upon termination of the project and for lateral reassignments, the converted GS grade will automatically become the employee's GS grade.

Pay Conversion

An employee's pay within the converted GS grade is derived by converting the project rates to GS pay rates (including locality rates and special rates, as applicable) before any geographic movement or other pay-related action that coincides with the employee's movement or conversion out of the demonstration project.

To derive an employee's converted GS rates of pay—(a) If possible, the employee's demonstration project locality-adjusted rate will be slotted into the highest applicable GS locality rate range or special rate range for the employee's converted grade. If the employee's rate falls between step rates for the applicable range, it will be raised to the next higher step rate. The employee's GS unadjusted basic rate of pay (i.e., excluding locality payments or special rates) will be derived based on the grade and step associated with the converted rate. (b) If the employee's locality-adjusted rate under the project cannot be slotted into the range because

it exceeds the maximum rate of the converted grade, it will be converted into a locality-adjusted GS retained rate, from which the base retained rate will be derived.

After conversion, the employee's converted GS rate is used in applying GS pay administration rules, as necessary—e.g., promotion, maximum payable rate determinations, pay retention. For conversions upon termination of the project and for lateral reassignments, the converted GS rates will automatically become the employee's GS rates.

C. Skill Block/Grade Conversion Table

Skill Based Pay places emphasis on the skills and abilities of the individual rather than the duties of a position. However, the skills described in the skill blocks in combination with the tasks which would typically be assigned, given the skill level of the employee, may be assigned a grade in the traditional sense. This will be of particular importance when an employee leaves a site which compensates based on skills and moves to a site that continues to compensate based on the grade assigned to a position description. The Conversion Chart (Figure 11) was developed to provide a reference point between skill blocks and GS grade equivalents.

FIGURE 11—SKILL BLOCK CONVERSION CHART

Skill Block	Grade	Associated competencies	Description of work
B-1	GS-3	C1	The employee establishes that the applicant is a member of a class of beneficiaries by either comparing the information in the application with official records submitted or requesting verification of the information from official records at a records center.
B2	GS-4	C1	The employee determines what supporting "proofs" or evidence are required by the case. As the "proof" material is received, it is analyzed to establish accuracy, validity and acceptability under governing legal requirements. Also provides straight-forward factual information on preparation of forms.
B3	GS-5	C1	The employee is typically assigned cases involving confused or missing records, cases involving duplicate claimants or cases which contain an excessive amount of detail. Also develops and makes final determination of award for certain one-payment awards with fixed monetary limits. Provides counseling on questions covered by guidelines or by clear-cut procedures.
B4	GS-7	C1 and some C2	The employee makes determinations pertaining to such matters as entitlement to medical treatment, funeral expense, compensation and pension. Adjudication of such claims normally requires determinations relating to the application of appropriate regulations. Counsels individuals regarding a variety of benefits or obligations that are closely related.
B5	GS-9	C1 and some C2	The employee prepares decisions on basic eligibility for claimants to various benefits provided by law. He/she must analyze and evaluate numerous types of documents and consider the many variables which may affect the amount of the award granted. Counsels individuals regarding a wide variety of comprehensive programs of benefits and services, each with a different set of regulations.
B6	GS-7	C1 and some C2	The employee makes determinations pertaining to such matters as entitlement to medical treatment, funeral expense, compensation and pension. Adjudication of such claims normally requires determinations relating to the application of appropriate regulations. Counsels individuals regarding a variety of benefits or obligations that are closely related.

FIGURE 11—SKILL BLOCK CONVERSION CHART—Continued

Skill Block	Grade	Associated competencies	Description of work
B7	GS-9	C1 and C2	The employee prepares decisions on basic eligibility for claimants to various benefits provided by law. He/she must analyze and evaluate numerous types of documents and consider the many variables which may affect the amount of the award granted. Counsels individuals regarding a wide variety of comprehensive programs of benefits and services, each with a different set of regulations.
B8	GS-11	C1 and C2 and some C3	Facilitates the development of and provides technical guidance to less experienced Case Managers. Adjudicates claims involving unusually complex or novel issues. Reviews consideration and appeal cases. Issues often point up need for new rulings. Develops facts and evidence; defines legal and factual issues, researches precedent decisions, applies law, regulations, policies and procedures; and drafts letters, decisions and notifications. Counsels individuals regarding a wide variety of distinct types of benefits, each with a different set of regulations.
B9	GS-11	C1 and C2 and some C3	Facilitates the development of and provides technical guidance to less experienced Case Managers. Adjudicates claims involving unusually complex or novel issues. Reviews consideration and appeal cases. Issues often point up need for new rulings. Develops facts and evidence; defines legal and factual issues, researches precedent decisions, applies law, regulations, policies and procedures; and drafts letters, decisions and notifications. Counsels individuals regarding a wide variety of distinct types of benefits, each with a different set of regulations.
B10	GS-12	C1 and C2 and some C3	Facilitates the development of and provides technical guidance to less experienced Case Managers. Adjudicates claims involving unusually complex or novel issues. Reviews consideration and appeal cases. Issues often point up need for new rulings. Develops facts and evidence; defines legal and factual issues, researches precedent decisions, applies law, regulations, policies and procedures; and drafts letters, decisions and notifications. Counsels individuals regarding a wide variety of distinct types of benefits, each with a different set of regulations.
B11	GS-12	C1 and C2 and some C3	Facilitates the development of and provides technical guidance to less experienced Case Managers. The employee has final signatory authority for allowing or disallowing the novel or unusually complex claims. He/she is responsible for the propriety and technical sufficiency of authorization actions, coordination with Rating Board personnel, identification of those cases requiring legal precedence decisions and certification of appeal actions. Serves as Chairperson of Boards convened to conduct personal hearings in cases involving reconsiderations.
B12	GS-12	C1 and C2 and some C3	Facilitates the development of and provides technical guidance to less experienced Case Managers. The employee has final signatory authority for allowing or disallowing the novel or unusually complex claims. He/she is responsible for the propriety and technical sufficiency of authorization actions, coordination with Rating Board personnel, identification of those cases requiring legal precedence decisions and certification of appeal actions. Serves as Chairperson of Boards convened to conduct personal hearings in cases involving reconsiderations.
B13	GS-13	C1 and C2 and some C3	Guides team in short and long term planning. Resolves conflicts, provides feedback, counsels, rewards and disciplines team members as appropriate. Facilitates and assesses team and team members' development. Serves as liaison with other teams/cores management, the union and external stakeholders.
B14	GS-13	C1 and C2 and some C3	Guides team in short and long term planning. Resolves conflicts, provides feedback, counsels, rewards and disciplines team members as appropriate. Facilitates and assesses team and team members' development. Serves as liaison with other teams/cores management, the union and external stakeholders. Models organizational values, communicates organizational vision, and demonstrates commitment to organizational mission. Promotes consensus and a results oriented approach to business. Educates and mentors to enhance team's understanding of organizational measures, performance goals, and achievement of stretch goals. Encourages and rewards innovation which enhances customer service.

VI. Project Duration

In accordance with section 4703 of title 5, United States Code, the project shall terminate at the end of the 5-year period beginning on the date on which the project takes effect. The project may continue beyond that period to the extent necessary to validate the results of the project or be terminated at any time during the 5-year period if deemed unsuccessful.

VII. Evaluation Plan

A. Introduction

The demonstration project authority requires that each demonstration project be evaluated to determine the demonstration project's "impact on improving public management" (5 U.S.C. 4703). The results from this demonstration project evaluation will serve two primary purposes. First, the results allow us to know when we have been successful in meeting the

objectives of the project. Second, the results serve as the basis for mid-course correction decisions. A mid-course correction is a fine-tuning of the project based on early feedback and knowledge gained through the evaluation.

The demonstration project evaluation will be a results oriented evaluation focusing on the innovations' impact on organizational outcomes, mission accomplishments, and management in general. Rather than test each change in personnel rule and regulation

separately, this evaluation will consider the innovation as a whole and treat it as a single intervention. This will allow the participants to determine the extent to which the new skill-based pay, with a variable pay component, in a team environment effects organizational performance by aligning the human resources systems with business needs. In effect, the evaluation attempts to gauge the link between human resources management (HRM) and agency mission. In the attempt to link HRM to outcomes, some of the more detailed process questions will be less of an emphasis than has been in the past.

A results-oriented evaluation will allow the agency to tie the demonstration project to other reinvention efforts and to comply with GPRA.

B. General Methodology

The evaluation will measure the impact of a skill-based pay/variable-based pay system in a team environment on the projects three objectives: improve customer satisfaction, increase value to the taxpayer, and increase opportunities for employee development. The evaluation model shown in Figure 12 represents the consensus of the Department of Veterans Affairs, the New York Regional Office, the Detroit Regional Office, and the Office of Personnel Management regarding project constraints, objectives and expectations.

The project objectives are theoretical constructs which will be measured by other directly observable variables. As

shown in Figure 12, it is hypothesized that the personnel interventions, taken together, will cause an increase in value to the taxpayer; an improvement in customer satisfaction; and increased opportunities for employees to develop and apply skills and competencies. The impact of the intervention on these three objectives will be tracked using the five measures of the *Balanced Scorecard*: cost per claim (including payroll costs), accuracy, speed, customer satisfaction, and employee development.

C. Three Phase Methodology

The evaluation will be conducted in three stages. Stage one will involve collecting baseline data prior to implementation of the demonstration project at each experimental and control site. Stage two will provide information for mid-course correction. The third summative stage will assess the overall impact of the project.

The evaluation will focus primarily on the overall impact of the interventions based on before and after comparisons of the data, using both quantitative and qualitative data. This will be accomplished using a longitudinal design, baseline data, and control groups along with the following three phase methodology:

(a) Interrupted Time-Series Comparison Group Design—A time series design will be used to track cost, speed, accuracy, customer satisfaction over time. Comparisons will be made between experimental groups and

between experimental and control groups;

(b) Case Study—A case study approach will be used to understand the implementation, process, and dynamics of team management and their effects on other organizational measures. Quantitative data will be combined with focus group, interview, documentary information, and other qualitative data sources; and

(c) Survey Analysis—An employee attitude survey will be used to garner information on job satisfaction, organizational climate, and employee development.

Control groups will be established that are similar to the experimental groups. The VA will make an effort to collect the same type of data from the control groups and experimental groups whenever possible.

To make the evaluation cost effective and to ensure the evaluation dovetails with on-going GPRA efforts, the evaluation will rely on data collected for other purposes. This includes the balanced scorecard and the employee attitude survey. Also, workforce data from CPDF and ILDRS will be tracked to ensure that Veterans Preference, along with Merit System Principles, are observed.

VA will enter into an agreement with an evaluator to conduct the evaluation of this project. However, in accordance with its statutory responsibilities, OPM will monitor the evaluation and provide oversight throughout the project's life cycle.

FIGURE 12.—EVALUATION OUTCOME MODEL—VA DEMONSTRATION PROJECT

Intervention	Expected effects	Observable measures	Data source
Skill-Based Pay, with a variable pay component, in a team environment.	Increase value to taxpayer	Cost per claim	Balanced Scorecard.
	Improve customer service	Accuracy	Balanced Scorecard.
		Speed	Balanced Scorecard.
	Improve employee pay satisfaction.	Customer satisfaction	Customer satisfaction survey.
	Improve employee development ...	Employee attitudes toward pay ...	Employee attitude survey.
	Employee satisfaction	Employee attitude survey.	
	Increase opportunities for developing and applying skills and competencies.	Balanced Scorecard.	
Maintain workforce diversity	Workforce composition	Case study.	
		Workforce data.	

VIII. Demonstration Project Costs

A. Budget Strategy

The demonstration project budget strategy focuses upon: (a) Reducing costs while continually improving service to veterans in line with

organizational outcome measures; (b) Utilizing savings to pay employees for learning and applying skills; and (c) Rewarding employees who contribute to the organization's success, improve service to the customers, and ensure the taxpayer's best interests are served.

B. Step Buy-Ins

Under the GS pay system, employees progress through their assigned grade by means of within-grade increases (WGI) which are based on time in step and an acceptable level of competence. Since WGIs will not be a part of the *Pay for*

Applied Skills System, employees will receive a one time lump-sum payment at the time of conversion to the new system.

At the time of conversion, each converted employee performing at an acceptable level of competence will receive a lump-sum cash payment based on the number of full weeks of the waiting period he or she has completed towards the next within-grade increase at the time of conversion. For example, an employee in a one-year waiting period who has completed 8 weeks towards his or her next within-grade increase would receive 8/52nds (.1538) of the applicable within-grade increase.

C. Cost Controls

The following cost control principles will be adhered to throughout the demonstration project: (a) The number of skill slots established for each skill block and groups of skill blocks will be based on employees' ability to learn and apply the skills and on mission requirements (e.g. organizational goals, work load) and may change over time as conditions warrant. Changes in the subject group's skill mix over time will be explainable based on reassessment or changes in mission requirements; (b) The dollar adjustment amounts assigned to skill blocks will be based on mission

requirements; and (c) Increases in average base pay under the project that exceed the increases at the control sites will be justified by the enhanced skill level of the subject employee group and by the improvements in organizational outcome measures that can be attributed to those enhanced skill levels.

Cost control will further be ensured by the following specific means: (a) Setting a maximum rate linked to the General Schedule. The maximum rate for the Business Line Skill-Based Pay Model is GS-13, Step 10; (b) Limiting new skill block assignments to no more than 2 per year; (c) Requiring a pay-back period for the demonstration of the new skills; (d) Managing the opportunity to attain skill blocks based only on organizational need; and (e) Tracking base pay increases, i.e., skill block attainment, and comparing them to equivalent base pay (promotions, WGI's and QSI's) increases at the control sites on an annual basis. Variations will be analyzed factoring in adjustments to staffing levels, changes in skill mix, and most importantly, increases in overall organizational productivity and other positive outcomes. The leadership skill blocks will add the GS 14, Step 1 to GS 15, Step 10 pay ranges to the model; however, the use of these skill blocks will be limited since competitive

selection will be required for entry into these skill blocks.

Should the need arise to add a skill block, increase the number of slots for skill blocks or increase the value (adjustment amount) of a skill block, VA will internally document the rationale for the change in order to conduct proper cost analysis.

It is anticipated that, in any given year, base pay costs may vary as compared to the control sites from time to time. Variances in base pay costs between the demonstration project sites and the control sites will be analyzed and explained to facilitate project evaluation. The goal is to maintain cost neutrality over the *life* of the project while still *testing the merits of the new pay system*. Adjustments in project goals/processes may be required as evaluation results are analyzed.

IX. Required Waivers to Law and Regulation

The following table lists the Civil Service laws and regulations that must be waived to implement this demonstration project. The project is in accordance with 5 U.S.C. 4703(c) and is consistent with all merit principles. All waivers are made only to the extent that project provisions as outlined in this plan conflict with existing law.

PROVISIONS OF LAWS OR REGULATIONS THAT REQUIRE WAIVERS—TITLE 5, UNITED STATES CODE

Section 5107	Classification of positions.
Section 5110	Review of classification of positions.
Section 5111	Revocations and restoration of authority to classify positions.
Section 5112(b)	Employee and agency requests for classification appeals.
Chapter 53:	
§§ 5301; 5302 (1), (8), and (9); 5303; and 5304.	Pay Comparability System (This waiver applies only to the extent necessary to allow demonstration project employees to be treated as General Schedule employees and to allow rates of basic pay under the demonstration project to be treated as scheduled rates of basic pay.)
§ 5305	Special Pay Authority.
§§ 5331-5336	General Schedule Pay Rates.
§ 5362	Grade Retention.
§ 5363	Pay Retention.
Chapter 55:	
§ 5545(d)	Hazardous Duty Differential (This waiver applies only to the extent necessary to allow demonstration project employees to be treated as General Schedule employees.)
Chapter 57:	
§§ 5753, 5754, and 5755	Recruitment and Relocation Bonuses; Retention Allowances; and Supervisory Differentials (This waiver applies only to the extent necessary to allow employees and positions under the demonstration project to be treated as employees positions under General Schedule.)
Chapter 75:	
§ 7512(4)	Adverse Action (This waiver applies only to the extent necessary to provide that adverse action provisions do not apply to conversions from a General Schedule special rate to a demonstration project pay rate that do not result in a reduction in the employee's total rate of pay.)

CODE OF FEDERAL REGULATIONS (CFR)

Section 300.601	Time in grade restrictions, applicability.
Section 351.401	Determination of retention standing.
Section 351.403(a)	Reduction-in-Force, Competitive Level.
Section 351.404(a)	Reduction-in-Force, Retention Register.
Section 351.504	Performance Ratings.
Part 511, Subpart B	Coverage of General Schedule.

CODE OF FEDERAL REGULATIONS (CFR)—Continued

Part 511, Subpart F	Classification Appeals.
Part 511, Subpart G	Effective Dates of Positions Classification Actions or Decisions.
Part 550:	
Subpart G § 550.703	Severance Pay [This waiver applies only to paragraph(c)(4) under the definition of “reasonable offer” that will be defined in Section III–D of the final plan that will be published in the Federal Register.]
Subpart I, § 550.902, definition of “employee”.	Hazardous Duty Pay (This waiver applies only to the extent necessary to treat demonstration project employees as General Schedule employees.)
Part 575:	
Subparts A, B, C, and D	Recruitment Bonuses, Relocation Bonuses, Retention Allowances, and Supervisory Differentials (This waiver applies only to the extent necessary to allow employees and positions under the demonstration project to be treated as employees and positions under the General Schedule).
Part 752:	
§ 752.401(a)(4)	Adverse Action (This provision is waived only to the extent necessary to provide that adverse action provisions do not apply to conversions from a General Schedule special rate to a demonstration project pay rate that do not result in a reduction in the employee’s total rate of pay.)

Appendix A—Organizational Outcome Measures

The NYRO uses a “BALANCED SCORECARD” for its organizational outcome measures. The scorecard displays outcomes for each team, each core group (cluster of 4

teams) and total organization. There are five types of measures: Customer Measures, Speed, Accuracy, Cost, and Employee Development Measures.

The scorecard lists GOALS for each measure. Goals are the ideal state for each data element. Goals must be acceptable that

is reasonable, understandable, measurable, believable and achievable. For example, if veteran surveys show that veterans think their compensation claims should be processed in 70 days, then this is “acceptable.” The following chart describes the measures.

Measures	Definition
CUSTOMER MEASURES	Based on monthly SERVQUAL survey results for each team.
SPEED Ranges/Miscellaneous/Simple Authorizations.	Each area is measured by the average days it takes to complete a claim (ADTC) and the average number of days unprocessed claims are pending (DAYS PD).
SPEED Phone Time/Personal Interview Time ...	The average amount of time a customer waits to speak to a team member on the phone or in person.
SPEED Lost Call	The percent of callers who receive our initial phone message but hang up before speaking to a team member.
SPEED—Backlogs	The total number of unprocessed (TOTAL PDG) and unprocessed claims over six months old (+180 days). Measures will be taken on a predetermined date each month.
ACCURACY—State Change I	Measures the accuracy of information requests (telephone/personal).
ACCURACY—State Change II	Measures the accuracy of how well cases were controlled and how successfully evidence was requested (CNTRL and DEV); how well benefits applications were completed with VA help (INTRNL); and without VA help (EXTRNL).
ACCURACY—State Change III	Measures the accuracy of the determinations made on the claim.
ACCURACY—State Change IV	Measures how well we notified the claimant of our decision.
ACCURACY—State Change V	Measures how long it took for the claimant to receive payments from VA once they’ve been “released” by the regional office. Not currently measured. Will probably be done by phone surveys.
COST	Measures the gains/losses of each team, each month. Calculated by comparing team costs (salaries, overtime, etc.) with claims produced with each claim being given a value-based on established work rate and local salary rates.
EMPLOYEE MEASURES—Climate	Measures how a team develops from initial startup to total self-management.
EMPLOYEE MEASURES—Team Development	Survey feelings of employees throughout the organization to determine areas of strength and weakness.
EMPLOYEE MEASURES—Technical Development.	Measures how individual team members are progressing in their individual skill development program.

[FR Doc. 96–29563 Filed 11–18–96; 8:45 am]

BILLING CODE 6325–01–P