

# CABINET AFFAIRS STAFFING MEMORANDUM

Date: 10-4-83 Number: 168796CA Due By: \_\_\_\_\_

Subject: Cabinet Council on Management and Administration,  
Thursday, October 6, 1983 at 3:00 P.M. TOPICS: See below.

ALL CABINET MEMBERS	Action	FYI		Action	FYI
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CEA	<input type="checkbox"/>	<input checked="" type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<u>ACUS</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input type="checkbox"/>	<input type="checkbox"/>	Baker	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Commerce	<input type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
Labor	<input type="checkbox"/>	<input type="checkbox"/>	Clark	<input type="checkbox"/>	<input checked="" type="checkbox"/>
HHS	<input type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HUD	<input type="checkbox"/>	<input type="checkbox"/>	Harper	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Transportation	<input type="checkbox"/>	<input type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Energy	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input type="checkbox"/>	<input type="checkbox"/>	CCCT/Gunn	<input type="checkbox"/>	<input type="checkbox"/>
GSA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input type="checkbox"/>	<input type="checkbox"/>
EPA	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/	<input type="checkbox"/>	<input type="checkbox"/>
OPM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCHR/Carleson	<input type="checkbox"/>	<input type="checkbox"/>
UA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhmann	<input type="checkbox"/>	<input type="checkbox"/>
SBA	<input type="checkbox"/>	<input type="checkbox"/>	CCMA/Bledsoe	<input checked="" type="checkbox"/>	<input type="checkbox"/>
			CCNRE/	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS: The Cabinet Council on Management and Administration will meet Thursday, October 6, 1983 at 3:00 P.M. in the Roosevelt Room.

Topics for review are Workspace Management, Consultant Services, Employee Classification, and White Collar Pay.

An agenda and papers are attached.

RETURN TO:

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Assistant to the President  
for Cabinet Affairs  
(456)2823

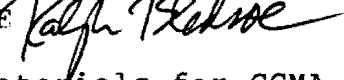
Katherine Anderson  
 Tom Gibson

Don Clarey  
 Larry Herbolsheimer  
Associate Director

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR CABINET COUNCIL ON MANAGEMENT AND ADMINISTRATION

FROM: RALPH BLEDSOE 

SUBJECT: Agenda and Materials for CCMA Meeting  
of October 6, 1983

DATE: October 4, 1983

Attached are materials for the CCMA planning meeting now scheduled for Thursday, October, 6, 1983, at 3:00 p.m. in the Roosevelt Room.

The first agenda item will be a reminder that agency workspace management plans are overdue, and a report that we stand to miss our goal unless agency managers take more direct actions to reduce workspace.

The issue paper on Consulting Services Controls was first communicated for the meeting of September 23. Time did not permit discussion at that meeting.

The paper on the Federal Employee Occupational Classification System was prepared by Don Devine, and is based on interactions between OPM and agency managers on standards for the contract and procurement occupation.

The paper on Reform of Federal White Collar Pay includes options for possibly preventing the annual difficulties in reaching agreement on Federal pay.

9/21/83

CABINET COUNCIL ON MANAGEMENT AND ADMINISTRATION

CONSULTING SERVICES CONTROLS

Issue Paper

ISSUE

What steps should be taken to reduce and control the cost of consulting and related services?

BACKGROUND

The Federal government spends about \$1.5 billion annually on consulting and related services, nearly two-thirds (or \$1 billion) of it by the Department of Defense. (See table below.) These services are often advisory in character and provide agency leadership with views and opinions on problems or issues relating to agency operations; or they might be special studies and analyses of management and support services for R&D activities. They are usually of a specialized professional or technical nature. OMB Circular A-120 and a subsequent memorandum from the Director of OMB provide agencies with basic guidelines and policy on the use of consulting services, and identify certain controls the agencies can use.

Consulting and Related Services  
(Obligations, in Millions of Dollars)

	<u>FY 1982</u>	<u>FY 1983</u>	<u>FY 1984</u>
Total . . . . .	1,404.4	1,481.5	1,518.2
Department of Defense . . . . .	902.4	933.1	980.8
(Defense as percent of total) . . . . .	(66.4%)	(63.0%)	(64.6%)

While legitimate agency need exists for these services, abuses have been referenced from time to time in congressional hearings, GAO reports, news articles, and by some executive branch managers. These offenses are said to include use of consultants to perform policy-making or management work, sole source selection when competitive procurement should have been used, year-end "rush spending" on questionable consulting contracts, "revolving-door" personnel arrangements, and conflict of interest situations.

Senators DeConcini, Abdnor, and Mattingly have asked OMB Director Stockman to devise stronger controls in this area. Senator Mattingly has also asked Loren Smith, Chairman, Administrative Conference of the United States (ACUS), to review the problem.

### OMB ACTIONS

In January, 1982, OMB developed a "Model Control System for Consulting and Related Services." The system defined model methods that agencies could adopt for controlling the use and quality of consultant services. In an August, 1983 survey, OMB found that of 13 agencies, 11 had not applied the model, one (Veterans Administration) had adopted it satisfactorily, and another (Commerce) had found mixed results. Most of the agencies not using the model expressed an intent to do so over the next year.

### ACUS PROPOSAL

In a letter to Edwin Meese, dated July 26, 1983, Loren Smith suggested two basic controls, which can be used singly or in combination:

1. Require agencies to obtain OMB approval for each contract in excess of a specified level, e.g., \$100,000; and, publish a brief synopsis in the Commerce Business Daily along with the names and phone numbers of the OMB approving officer and the agency contracting officer.
2. Require agency program employees to prepare an internal evaluation of the impact of each completed contract on program efficiency and effectiveness.

OMB opposes the ACUS proposals on the grounds that OMB approval and additional agency evaluation would be administratively impractical and burdensome, both for OMB and for the agencies. OMB does not and should not have a staff sufficiently large to control such a process in the detail implied.

### OMB PROPOSAL

OMB believes that primary responsibility and accountability for managing agencies must stay with the agency heads. It prefers that agencies adopt a set of controls based on the Model Control System. The model system provides for an agency post-evaluation of each consulting contract, as well as several other control features. Alternatively or simultaneously, reviews of the use of consultant services can be made (or required) as part of the Financial Integrity Act internal control reviews.

### CCMA INTEREST

Opportunities exist for cutting waste and abuse in this area. Savings could be very substantial, a chronically difficult management problem could be corrected, and the Administration could take credit for eliminating another abuse of appropriated funds.

CCMA OPTIONS

1. Develop further the ACUS concepts of OMB approval and/or agency program evaluation of contracts.
  2. Proceed with the OMB approach of urging adoption of the Model Control System, or its equivalent. Request larger agencies to adopt a consultant services control system based on the OMB model and/or require review of the use of consultant services as part of the mandatory annual internal control reviews.
  3. Further examine these and additional alternatives in a quick 60-day study, conducted by a small CCMA working group.
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Office of the Director

UNITED STATES  
OFFICE OF PERSONNEL MANAGEMENT  
WASHINGTON, D.C. 20415

August 15, 1983

MEMORANDUM FOR THE CABINET COUNCIL ON MANAGEMENT AND ADMINISTRATION

FROM: Donald G. Devine  
Director

SUBJECT: Federal Employee Occupational Classification System

I. BACKGROUND

The overwhelming proportion of Federal Government occupations are organized under a classification system. In general, there is a 15 grade system, ranging from the least demanding jobs at GS-1 to the most demanding jobs at GS-15. Four major elements make up the full classification system: (1) Primary Occupational Standards are derived from statute into primary guidelines by the Office of Personnel Management (OPM), to set generic policies for establishing each occupational series, for setting qualifications for these occupations, and for assigning factor evaluations scores to broad skill levels; (2) Specific Occupational Standards are developed by OPM from the primary standards, and are evaluated against data gathered from a field study of how work actually is done in these occupations in the Government; (3) Job Classification is then performed by agencies to classify specific jobs under the occupational standards set by OPM; and (4) Classification Audits are done by OPM to assess how well agencies have classified under OPM standards, with compliance actions being ordered by OPM where misclassification is identified.

II. CURRENT STATUS

OPM estimates that agency overclassification under present standards costs the government \$680 million per year. OMB estimates there is an additional poor position management expense, beyond the formal classification system, of \$8 billion per year. Historical data indicate that the major distortion of the classification system took place between 1950 and 1970, with only a gradual escalation since then. Average grade rose from 5.4 in 1950 to 7.8 in 1970, and then to 8.1 in 1980. OPM estimates that a maximum of 50 percent of this growth in grade can be attributed to technological change, suggesting that the remainder is solely due to poor classification; i.e. Federal employees are rated at least one and a half grades too high on the average. We estimate that 14 percent of occupations are overgraded governmentwide, 17 percent in civilian agencies and 9 percent in DoD, and 30 percent of all positions in the Washington, D.C. area.

The basic structure of the classification system has not changed since 1975. Since then, OPM has not questioned the primary standards, but simply has produced specific new occupational standards and has done audits of agency classifications. Every occupational standard issue which has had even the potential of downgrading an occupation has become very controversial. The controversy often becomes widespread because private occupational associations, as well as all levels of government, often follow OPM standards. In most cases, audits have revealed significant overgrading, with agencies reluctantly complying with the comparatively few audits OPM was able to perform nationwide.

### III. ACTION FORCING EVENT

Two particularly controversial occupational standards were ready for issue in late 1982, after substantial field analysis by OPM: the contract and procurement standard, and the librarian standard. The contract and procurement standard issue was brought to the CCMA on December 8, 1982. OPM was tasked to review the standards with an interagency committee. The committee has now met and resolved the issues that were outstanding. All the major agencies are now satisfied with the changes. OPM intends to proceed to issue the revised standard for the contract and procurement occupation.

### IV. ANALYSIS

As a result of the intensive analysis of the contract and procurement standard, as well as experience gained with other standards issued over the past two years, OPM has come to the following conclusions. First, all three primary standards need to be reviewed. It is almost a decade since they have received a comprehensive analysis. OPM intends to study each of these to be sure these essential elements of the system are sound. This is especially so for the qualification standards, since our preliminary analysis suggests that they mandate more credentials than are necessary, both under the law (5 U.S.C. 3308), and under the free market philosophy of reducing barriers to entry in occupations.

Second, OPM intends to institutionalize the review process initiated for the contract and procurement occupational study, whenever a significant controversy arises over an occupational standard. That is, an interagency committee recruited from the Governmentwide Personnel Policy Group will be recruited to review these standards and make recommendations to the Director of OPM.

Third, it is clear that classification has been over-delegated to agencies, resulting in significant overgrading and expense. As already noted in the Budget, OPM will be presenting a comprehensive plan to manage "grade creep", especially the "bulge" identified by the Grace Commission report for the GS-11 to GS-15 grade levels. This plan will be submitted to CCMA within the next month.

Fourth, it is clear that OPM audit evaluations study too small a sample of Federal occupations. This is a result of its desk audit and case study methodology. OPM intends to shift to a statistical, rather than a case, evaluation method. This will allow central government executives to more properly evaluate classification governmentwide, and to control overgrading in the future.

V. DECISION

Approve OPM Approach \_\_\_\_\_

Disapprove OPM Approach \_\_\_\_\_





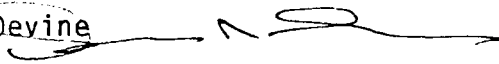
UNITED STATES  
OFFICE OF PERSONNEL MANAGEMENT  
WASHINGTON, D.C. 20415

Office of the Director

September 28, 1983

MEMORANDUM

TO: Cabinet Council on Management and Administration

FROM: Donald J. Devine   
Director

SUBJECT: Approaches to the Reform of Federal White Collar Pay

I. BACKGROUND

For the sixth consecutive year, a president has submitted an "alternative plan" rather than adopting the rate of pay for government employees reported in the President's Pay Agent salary survey. By law, the Pay Agent (consisting of the Director of OPM, Director of OMB and Secretary of Labor) devises a methodology to measure pay comparability with the private sector, in consultation with the Federal Employees Pay Council (consisting of employee union representatives). As a result of past concessions made to the unions, the present pay methodology is completely unsupportable from a technical standpoint. This year the methodology reported that Federal employees need a pay increase of 21.5 percent to be comparable to the private sector. No one believes this, and this is why alternative plans have been supported by presidents rather than the "comparability" expected to be paid under the statute. The same lack of faith in its methodology has also led Congress to vote lower pay increases than comparability in the last two budgets.

II. CURRENT STATUS

The 1982 Pay Agent report to the president promised a review of legislative and administrative approaches to improve the measurement of comparability. Several meetings were held with the Federal Employees Pay Council (FEPC) to exchange views and consider possible reforms. In December 1982, the Office of Personnel Management released a comprehensive study of different approaches to reforming Federal pay. After further exchange, on February 17, 1983, the FEPC informed the Pay Agent that further meetings would be "fruitless". One of the "approaches" reviewed before the breakdown of communication, which would not necessitate a change in law, was a reweighting of the comparability survey to make it more representative. Since it was already discussed with the FEPC, it could have been presented as the official report of the

Pay Agent this year. OPM favored reporting this new methodology this year as the Pay Agent recommendation but finally the old methodology was used to show that Federal employees were entitled to a 21.5 percent pay raise. Since this was clearly unacceptable, the President submitted an alternative pay plan proposing a 3.5 percent pay increase, delayed to January 1, 1984.

### III. ACTION FORCING EVENT

Congress is expected to include a 4 percent pay raise, payable in January, in a reconciliation bill. The Directors of OMB and OPM met with Congressional leaders in early August and found them rather adamant. The Director of OMB expects that he will be able to move Congress towards the alternative of 3.5 percent. Everyone recognizes, however, that this kind of bargaining over pay represents a less than desirable process to determine employee salary. The unpredictability of the processes is further enhanced due to the Chadha decision, which questions the legitimacy of the Congressional veto of the alternative plan, and perhaps of the alternative plan itself. So both Congress and the Executive Branch are considering new alternatives.

### IV. OPTIONS

Option 1: Maintain the present methodology. The present methodology is technically unsupportable. Among its more glaring failures, it severely underrepresents small firms, the survey is not representative of the occupational mix either of the private sector or the Federal Government, and it compares average salaries rather than the more critical entry rates. There are also other problems, which would require a change in the law, such as the fact that the survey does not take into account local wage rates, nor is it allowed to use the most comparable occupations, i.e., in state and local government employment. There is one benefit to keeping the present system, however. The pay increases generated by the survey are so unrealistically large and the methodology so poor that there is very little chance Congress will take the pay results of the survey seriously. This makes Congress very reluctant to override an alternative plan, although this has become more clouded with the Chadha decision, and Congress' more frequent recent use of the reconciliation process to set its own pay rate independent both of "comparability" and the alternative plan.

Option 2: Legislative change. Legislative proposals to overhaul the current pay system were sent to Congress by the Carter administration in 1979, and by this administration in 1981. The thrust of both approaches was to move from salary comparability to total compensation comparability (i.e. including retirement, health and other benefits in the survey in addition to pay). These proposals were vigorously opposed in Congress, leading to the formal withdrawal of the legislation by this administration in 1982. The Pay Agent accepted the recommendation of the Advisory Committee on Federal Pay that benefits should be separated from pay, and reforms concentrated in each area separately.

Although a legislative solution on pay would be the most rational solution, it can be expected to be very difficult to pass through Congress. The Congressional proposal on pay-for-performance to allow bargaining over pay, has whetted the unions appetite for a legislative solution involving collective bargaining. The administration would presumably support legislation which would more accurately compare the two systems, perhaps shifting to more market-related solutions (such as comparing employees rather than jobs, or by measuring demand for Federal employment rather than wages directly). With the administration and the Congress on such radically different courses, it is unlikely that legislation acceptable to the administration could be passed, especially in time for next year's pay decision.

Option 3: Reweighting of the present comparability methodology. OPM's "Study of Approaches to Federal Pay" presented a methodology to more accurately weight the present survey, within the present constraints of the law. Had that methodology been applied in 1982, the recommended pay adjustment would have been 2.53 percent, instead of 18.5 percent. For 1983, the adjustment would have been 3.89 percent, instead of 21.5 percent.

The weighting methodology had the following four components: (1) weighting the survey to account for as much as 60 percent of the private nonfarm workforce presently excluded in small firms, (2) comparing entry rates instead of average salaries to account for the Government worker's faster movement through the step-rate range, (3) adjusting current salary data to account for the approximately 93 percent of Federal administrative workers for whom no private sector counterparts are included in this survey, and (4) eliminating the extremes of the private sector salary averages to achieve an improved statistical comparison.

This option can be adopted merely by including it in next year's Pay Agent report. Congress might resent the process being reformed by administrative action rather than by statute, but they obviously could overrule the decision legislatively if they really wanted. The fact that the new weighting formula is reasonable and results in a more realistic pay increase, having the face validity of being very close to both the 4 percent reported by Congress and the 3.5 percent reported in the alternative plan, gives it great legitimacy to Congress. For two years it would have resulted in reasonable pay increases, compared to the unrealistic results of the present process.

In addition, the present process results in an extremely serious morale problem among Federal employees. The present process allows employees to refer to an official report of the President's Pay Agent to support their belief that they are being denied pay actually due them. If the present process is modified and replaced by a credible alternative, this serious morale problem can be attenuated.

Option 4: Legislative Strategy with Reweighting Adjustment As Fall-Back. Although legislation acceptable to the Administration is unlikely, it is possible. This option would set a strategy to try for a comprehensive legislative solution but to make adjustments to the pay computation process if legislation is not feasible. This option would: 1) first seek a comprehensive legislative solution which would be modeled along past Carter and Reagan comprehensive reforms of pay computation, but also would use objective measures of private sector pay movement, such as a modified Employment Cost Index to eliminate "carry-over" increase and to eliminate "rate to rate" comparisons, while at the same time giving the President greater flexibility in distributing pay by grade, occupation and locality. (2) If the former is too comprehensive to be legislatively viable, make the following less comprehensive, but still important legislative changes: include state and local governments in the comparison, include special pay systems for selected occupations with recruiting and retention problems, and allow the Pay Agent to use methodology other than job-to-job comparisons. (3) If acceptable legislation cannot be passed, improve the current process by having BLS fully survey smaller establishments and excluded industries, increase job representativeness by using indirect matching methods, and make comparisons at the entry rates to compensate for faster Federal government through the rate range. (4) If BLS cannot make acceptable changes for next year's Pay Agent report, adopt the new methodology developed by OPM for use in the 1985 report, and modify it later by the BLS methodology (Same as Option 3).

#### V. RECOMMENDATION

I recommend the adoption of Option 3. The present methodology is unsupportable, and it is a serious drain on employee morale. No conceivable legislation which could pass Congress could result in a pay adjustment more reasonable than one weighted by the Pay Agent. If the comparability figure is reasonable, there is no necessity for an alternative plan. This approach would regularize the process and give it legitimacy. It is critical that this decision be made early to remove it from the politics of an election year. Option 3 is the most reasonable and rational, and should not be colored by politics.