



DEPUTY SECRETARY OF DEFENSE
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SEP 22 2009

MEMORANDUM FOR CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
DEPUTY CHIEF MANAGEMENT OFFICER
ASSISTANT SECRETARIES OF DEFENSE
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE
DIRECTOR, OPERATIONAL TEST AND EVALUATION
DIRECTOR, COST ASSESSMENT AND PROGRAM
EVALUATION
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE
CHIEF JUDGE, U.S. COURT OF APPEALS FOR THE
ARMED FORCES
CHIEF, NATIONAL GUARD BUREAU
ASSISTANTS TO THE SECRETARY OF DEFENSE
DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTOR, NET ASSESSMENT
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Fiscal Year (FY) 2009 Senior Executive Service and Senior Professional
Performance Appraisal Close-Out Guidance within the Fourth Estate

The FY09 Executive and Senior Professional Performance Appraisal cycle will end on September 30, 2009. As the Component Head for the Office of the Secretary of Defense, Joint Chiefs of Staff, Defense Agencies, and DoD Field Activities, hereafter referred to as the Fourth Estate, I am responsible for ensuring that our performance appraisal processes are consistent, transparent, and equitable across our organization. To assist me with managing these processes, I have delegated administrative authority to the Director of Administration and Management (DA&M).

The DA&M will disseminate detailed business rules and funding guidance in accordance with the authorities delegated in the DoD Directive 1403.01 and SC 920. I expect all leaders to ensure consistent implementation of the performance evaluation processes and procedures. At a minimum, actions will be in compliance with the following overarching guidance:

- Establish a clear linkage between the Executive's performance/outcomes and the goals of the organization;



OSD 10385-09



- Provide transparency by ensuring that Senior Executives understand the pay for performance process and their ratings;
- Ensure Executives and supervisors engage in face-to-face discussions about the Executives' performance;
- Ensure meaningful distinction in performance ratings; and
- Comply with submission timelines.

I appreciate your support in ensuring the Performance Review Board processes are managed consistently and ensure fair and equitable results across the Fourth Estate.

A handwritten signature in black ink, appearing to read "W. B. Byrne". The signature is written in a cursive style with a large initial "W" and a long, sweeping tail.



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SEP 24 2009

ADMINISTRATION AND
MANAGEMENT

MEMORANDUM FOR CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
DEPUTY CHIEF MANAGEMENT OFFICER
ASSISTANT SECRETARIES OF DEFENSE
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE
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DIRECTOR, NET ASSESSMENT
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Fiscal Year (FY) 2009 Senior Executive Service (SES) and Senior Professional (SL/ST) Performance Appraisal Cycle Close-out Business Rules for the Fourth Estate

The FY09 SES and SL/ST Performance Appraisal cycle will end on September 30, 2009. Pay increase and performance award recommendations for all SES and SL/ST members must be completed in accordance with DoD policy (Civilian Personnel Manual, Subchapter 920 (SC920)).

Pursuant to the Deputy Secretary of Defense's delegation of administrative authority to the Director, Administration and Management for the Office of the Secretary of Defense, Joint Chiefs of Staff, Defense Agencies, and DoD Field Activities, hereafter referred to as the Fourth Estate, I am forwarding the attached guidance on FY09 SES and SL/ST Performance Management close-out business rules for implementation throughout the Fourth Estate. The intent is to provide a consistent approach to the SES/SL/ST populations across the Fourth Estate when:

- Making meaningful distinctions in performance, carefully weighing accomplishments with DoD goals;

OSD 10740-09



- Ensuring the pay for performance process and SES/SL/ST ratings are communicated to them in a timely manner;
- Applying proration, the 12-Month Rule, and appropriate exceptions to both; and
- Allocation of funds in the pay pool.

Pay and performance management is a priority for supervisors and executives throughout DoD. Executive leaders at all levels have invested time and effort to ensure that DoD continues to meet the requirements necessary for OPM certification. The attached business rules/key reminders are intended to support these efforts. Your continued involvement and insight are necessary to maintain a performance management system that is fair and equitable. My office will conduct an evaluation of Fourth Estate application of the business rules/key reminders after the closeout process has concluded.

Guidance will be forthcoming on the Pay Pool Funding Factor, Tier funding caps, and individual pay increase and bonus limitations.

Please direct your questions to Ms. Deborah Jacks-Pearson at (703) 697-0033 or Deborah.Jacks-Pearson@whs.mil, Ms. Sudanya Kirk at (703) 697-1953 or Sudanya.Kirk@whs.mil, or Ms. Vicky Motiu at (703) 697-1686 or Vicky.Motiu.ctr@whs.mil.



Michael L. Rhodes
Acting Director

Attachment:
As stated

FY09 Executive and Senior Professional Performance and Appraisal System Business Rules / Key Reminders for Fourth Estate Components

Reference: DoD 1400.25-M, Civilian Personnel Manual, Subchapter 920

Topics:

- 1. Purpose**
- 2. Completion of Performance Appraisal**
- 3. Quality of Evaluations**
- 4. Meaningful Distinctions**
- 5. Communication**
- 6. Rating Level Determination**
- 7. Higher Level Reviewer**
- 8. Pay Pool Managers**
- 9. Performance Review Board Operations**
- 10. General Payout Practices**
- 11. Prorated Payouts**
- 12. Distribution of Excess Pay Pool Funds**
- 13. Exceptions**

1. Purpose

The below business rules are not intended to substitute the policies of Subchapter 920 but to clarify and provide consistency in approach throughout the Fourth Estate. The business rules/key reminders must be understood and applied in the context of Subchapter 920.

2. Completion of Performance Appraisal

An annual rating is required by OPM for every SES member (career, non-career, or limited-term appointee) who is an SES member as of the end of the appraisal period (September 30) and has worked under an approved performance plan for a minimum of 90 days.

If an annual summary rating cannot be prepared at the end of the performance appraisal period because the executive has not completed the minimum performance appraisal period or for other reasons, the executive's performance appraisal period must be extended, but not for a period longer than 15 months. The rating official determines how long the performance appraisal period will be extended to ensure the executive is provided an opportunity to achieve the performance requirements.

3. Quality of Evaluations

Evaluations should meet regulatory, statutory, and DoD policy requirements prior to submission to the Performance Review Board (PRB). Specifically:

- Rater's Assessment:
 - Each performance requirement will be weighted and scored.
 - **The DD Form 2899/2898 submission is limited to 7 pages (1 cover page, 2 page maximum for performance elements/requirements/preliminary score, 2 page maximum for accomplishments, and optional 2 page self-evaluation).** All performance appraisal forms must follow the prescribed page limit or risk return for correction. The exception to this limit occurs in those instances where a less than fully successful rating is recommended and when a higher level review has been requested. In all other cases, **if accomplishments and/or component comments exceed the limits of the appraisal form, the appraisal will be returned for correction prior to review by the PRB. If the performance appraisal form cannot be adjusted, it may result in excess pages being excluded from the review.**
 - All signatures will be documented prior to submission of the appraisal form to the PRB.

- Optional Self-Evaluation:
 - Executives are encouraged to provide an optional self-evaluation limited to 2 pages, 10 point font to their rating official.
 - The self evaluation is primarily provided to inform rating officials of the executive's view of their accomplishments. If an executive submits a self-evaluation, the self evaluation will be included in the package reviewed by the PRB. The PRB will have access to the self-evaluation as additional information to understand the executive's accomplishments and outcomes in order to recommend a performance rating and shares.

Narrative assessments should be outcome-based with appropriate metrics/measures linked to organizational goals/outcomes. The quality of performance requirements and assessments is critical to ensuring a fair rating.

Narrative assessments are submitted by the rating official, not the executive employee; therefore, they should not be written in the first person (I statements).

Acronyms and jargons should be spelled out or kept to a minimum.

Narrative assessments must support the recommended rating.

Assessments should be clear, concise, and document specific accomplishments related to the documented performance elements and requirements.

4. Meaningful Distinctions

Rating officials, pay pool managers, and the PRB are expected to ensure **meaningful distinctions in performance** and hold executives accountable for results. Individual performance must be linked to organizational performance. Documents to facilitate discussions (DoD Organizational Assessment, Agency Assessments, Strategic Plan Assessments, and other

pertinent organizational assessment information available) must be present for PRB panel discussions and documented in an After Action Report by the PRB panels.

Meaningful distinctions should be made in **rating levels** and the **number of shares** awarded.

The expectations for our executives are extremely high and the accomplishment of an “Achieved Expectations” rating should not be perceived as a bad mark on someone’s record or mediocre/average performance.

For those who truly exceed the challenging expectations described in their performance requirements, an “Exceeds Expected Results” rating would be appropriate.

When a sizable recognition is warranted, which is only available through the limited use of the top level rating, the “Exceptional Results” rating is appropriate.

5. Communication

To ensure transparency and credibility, the Initial Summary Rating, which includes the rating official’s recommended score, rating, and shares must be communicated to the executive and senior professional prior to the PRB review.

6. Rating Level Determination

In accordance with DoD policy, SES members are rated using the following rating, score, and share information:

Performance Rating Level, Score Ranges, and Shares for Payout Conversion Chart

Performance Rating Level	Score	Performance Payout Shares
Exceptional Results (5)	95 - 100	11, 12, 13, 14, 15, or 16 Shares
Exceeds Expected Results (4)	86 - 94	7, 8, 9, or 10 Shares
Achieved Expectations (3)	70 - 85	1, 2, 3, 4, 5, or 6 Shares
Minimally Satisfactory (2)	51 – 69	0 Shares
Unsatisfactory (1)	0 – 50	0 Shares

Performance Levels are defined below:

- **Exceptional Results** – performance that far exceeds what is expected in the attainment of the performance requirement, as evidenced by exceptional accomplishments or contributions to mission.
- **Exceeds Expected Results** – performance that surpasses what is expected in the attainment of the performance requirements and/or results in the achievement of unexpected outcomes that contribute to the mission.
- **Achieved Expectations** – performance that fully meets the attainment of the requirements as defined by the performance plan.

- **Minimally Satisfactory** – performance that partially meets or demonstrates some progress toward the attainment of the performance requirements described in the performance plan.
- **Unsatisfactory** – performance that fails to meet the requirements for any element in the performance plan.

While distribution of performance scores and ratings is critical, as it serves as evidence rating officials have made meaningful distinctions in performance, distribution of performance scores will not be forced or artificially constrained by a rating official, Authorizing Official, or PRB.

The rating official will score each performance element and performance requirement individually using a 100-point scale. The overall performance score is determined by multiplying each element’s numeric score by the assigned weight, then totaling all elements. Raw scores of .5 and above are rounded up to the next whole number. The maximum performance score is 100 points. An executive whose performance is unsatisfactory for any element (i.e. receives fewer than 51 points) will receive a final rating of Unsatisfactory. See example below:

Example Summary Rating Derivation Table						
Performance Elements	Score		Weight	Total	Performance Score Point Range (0-100), Rating (1-5) and Rating Descriptor	
#1 Mission Accomplishments	86	x	60%	51.6	95 – 100 (5)	Exceptional Results
#1.a. Directs Technical, Financial....	↑				86 – 94 (4)	Exceeds Expected Results
#1.b. Develops Joint Training and....	↑				70 – 85 (3)	Achieved Expectations
1.a. (88) + 1.b. (84) = 172/2 = 86	↑				51 – 69 (2)	Minimally Satisfactory
#2 Leadership/Supervision	83	x	15%	12.45	0 – 50 (1)	Unacceptable
#3 Technical Comp/Problem Solving	84	x	15%	12.6		
#4 Customer Care	86	x	10%	8.6		
Total Weight:			100%			
Total Performance Score (range 0-100):				85.25		
Summary Rating						
<input type="checkbox"/> Unacceptable <input type="checkbox"/> Minimally Satisfactory <input checked="" type="checkbox"/> Achieved Expectation <input type="checkbox"/> Exceeds Expected Results <input type="checkbox"/> Exceptional Results						

Performance Rating Level	Score	Performance Payout Shares
Exceptional Results	95 – 100	11, 12, 13, 14, 15 or 16 Shares
Exceeds Expected Results	86 – 94	7, 8, 9 or 10 Shares
Achieved Expectations	70 – 85	1, 2, 3, 4, 5 or 6 Shares
Minimally Satisfactory	51 – 69	0 Shares
Unsatisfactory	0 – 50	0 Shares

7. Higher Level Reviewer

Rating officials should clearly explain the Higher Level Review process to their executive employees.

SC920 allows executives to respond in writing within 7 business days after receipt of the Initial Summary Rating and/or request a review by an official at a higher level than the rating official prior to review by the PRB.

The reviewing official must be at a higher level than the rating official within the organization. Organizations may appoint someone outside their organization to perform the review if it would be more appropriately conducted by an external executive or General/Flag Officer.

The reviewer should be an individual who was not involved in the initial rating process.

The review must precede action by the PRB, so that the Board will have the opportunity to consider the reviewer's comments in its deliberations.

Copies of the reviewer's findings and recommendations must be provided to the executive, the rating official, and the PRB.

8. Pay Pool Managers

Pay pool managers are encouraged to meet with the Performance Review Panel Moderators prior to pay pool meetings to discuss the approach each pay pool manager is taking and offer any assistance required.

In addition to the pay pool results, each pay pool manager will provide a cover memo to their Authorizing Official that clearly articulates the approach the pay pool manager took regarding the pay pool process, recommendations, and rationale for any deviation from established business rules. This includes exceptions to proration, the 12-month rule, tier funding limits, and distribution of excess pay pool funds.

Within the Defense Agencies with separate Authorizing Officials, the pay pool manager and PRB functions may be combined (such as when the number of executives warrants only one pay pool). In this case, the pay pool manager/PRB must document their deviations to the exceptions and provide a copy to their Authorizing Official and to the Deputy Secretary of Defense through the Director, Administration and Management.

9. Performance Review Board Operations

Generally, PRB panels will only consider accomplishments documented on the DD Form 2899/2898, Part C, Accomplishments (or 2 substituted pages of plain bond paper). Additional pages are permitted when a less than fully successful rating is recommended or when a higher level review has been requested. **Accomplishments that exceed the maximum page limitation, as mentioned under "Quality of Evaluations," will be returned for correction to ensure compliance with the business rules.**

The quality of the evaluation of performance is important. The PRB is responsible for determining whether the accomplishments support the pay and bonus recommendations based on the information provided on the DD Form 2899/2898.

An essential part of our system's design is to link individual performance payout results with organizational achievements. When reviewing ratings, PRB Panels will consider whether rating results are reflective of organizational performance and make recommendations to bring ratings in alignment when necessary.

If the PRB disagrees with a pay pool manager's recommendation, the pay pool manager will be given the opportunity to defend the original recommendation and try to reach consensus with the PRB recommendation prior to the package being forwarded to the Authorizing Official.

Pay pool managers will notify rating officials of any recommendations by the PRB that differ from the Initial Summary Rating.

10. General Payout Practices

Pay pools will operate under a consistent payout distribution methodology regardless of appointment type (career, non-career, or limited-term).

It is considered inappropriate to award the full payout value to bonus primarily because the executive is retiring.

In making pay decisions, senior leadership should be sensitive to the pay scale of civilian personnel in NSPS pay bands and under the General Schedule, such that, to the extent possible, the pay of SES members is higher than their subordinates.

Each executive and senior professional must receive a copy of the formula used to determine the performance payout process and to understand the methodology behind calculating payouts. One option to meet this requirement is to attach a copy of the Executive Payout Example described on page 46 of the SC920, dated 03-18-08, to the DD2899/2898 once signed by the Authorizing Official.

11. Prorated Payouts

The total performance payout **will** be prorated for executives who were covered by SC920 for less than the full performance year based on the below guidelines. If the total payout is prorated, it will be based on the number of months the executive has been covered by SC920. Senior executives moving within the Department of Defense during the Performance Appraisal Period covered by SC920 for the entire rating are not subject to proration.

Pay pool managers should be mindful that prorating can lead to situations where eligibility for a bonus may be impacted. Career senior executives are only eligible to receive a portion of their payout to bonus if the amount of the bonus is at least 5 percent of the executive's salary. Non-career and limited-term senior executives are not eligible to receive a bonus. Senior professionals (SL/ST) are eligible to receive a portion of their payout as a bonus with no minimum limit.

12. Distribution of Excess Pay Pool Funds

Excess funds may occur in a pay pool as a result of a number of factors (e.g., inclusion of non-career and limited-term executives who are not eligible for a performance bonus payout; tier pay policy limitations which may prevent non-career and limited-term executives from receiving the full share value calculation; and career SES bonus which does not meet the minimum threshold of 5%).

If pay pool managers choose to redistribute the available pay pool funds in order to effectively recognize exceptional performance, they must do so in a judicious and prudent manner so as not to distort the overall pay for performance process. Specifically, pay pool managers must provide the PRB a copy of their business rule which details how the funds are redistributed as well as detailing the amount and method by which the funds were redistributed. The business rule should fairly redistribute the excess funds within the tier, throughout the pay pool keeping in mind the following:

- Executives who receive a prorated payout should not receive a portion of the redistributed funds which would reverse the impact of proration.
- Pay pool managers should not redistribute excess funds to maximize individual executive payouts for the sole purpose of spending the pay pool.
- In no case should redistribution result in a change greater than 10% above the original individual executive's calculated payout.

13. Exceptions

Pay pool managers must submit specific justification with the Initial Summary Rating to the appropriate Authorizing Official when requesting exceptions to tier limits, 12-Month Rule, and/or proration. All requests will be highlighted in the approval package to the Authorizing Official. The pay pool manager/PRB must document their deviations to the exceptions and provide a copy to their Authorizing Official and to the Deputy Secretary of Defense through the Director, Administration and Management.

Exceptions to Tier Funding Limits

The tier structure is built upon the foundational principle that executive positions vary in terms of impact to mission, level of complexity, span of control, inherent authority, scope and breadth of responsibility, and influence in joint, national security matters. This structure allows the Department to more effectively recognize that high level performance in some positions has more impact than comparable performance in others. Pay pool managers should make every effort to make meaningful distinctions in ratings and payout distribution, avoiding the need to request exceptions to tier funding limits.

Exceptions may be considered by the Authorizing Official on rare occasions. For example, for extremely small pay pools, the pay pool manager and/or PRB may compare the score, rating, and payout to similarly situated executives (similar scores and ratings) in other tiers or pools. Their analysis may identify a disproportionate payout caused primarily by the extremely small size of

the pay pool. If the pay pool manager or PRB finds that the executives in the extremely small pay pool received a disproportionately lower payout, they may request and likely receive approval from the Authorizing Official for the exception to the tier funding limits.

Exceptions to the 12-Month Rule/Proration

Historically, exceptions to the 12-Month Rule/proration have been approved in very rare circumstances. However, when extenuating circumstances exist the Authorizing Official may approve exceptions for requests submitted by the pay pool manager. For example:

- If the executive received only a small pay adjustment, or none, upon appointment into the current position, the Authorizing Official may be receptive to an exception.
- If the executive's most recent appointment to the current position was early in the performance year and significant time has passed since their previous pay adjustment, the Authorizing Official may consider an exception to the 12-Month Rule.
- If immediately prior to appointment to the current executive position the executive held another Federal position benefiting the Department or the federal government, the Authorizing Official may be receptive to an exception to the proration rule.

Please note, in all situations, the actual score may impact whether the Authorizing Official will favorably consider an exception. If the score of an executive is low compared to other executives in their pay pool, the Authorizing Official may not feel an exception to the 12-Month Rule and/or proration is appropriate even though the above situations may exist.