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READINESS

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
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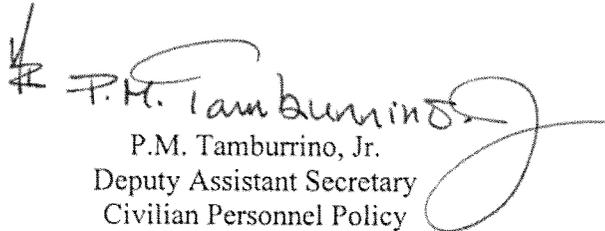
JUL 06 2011

MEMORANDUM FOR: SEE DISTRIBUTION

SUBJECT: Supplemental Guidance on Award Limitations for Department of Defense Civilian Employees in Fiscal Years 2011 and 2012

In a memorandum dated June 10, 2011, the Office of Personnel Management and Office of Management and Budget (OPM/OMB) jointly published guidance on awards for fiscal years (FY) 2011 and 2012. The guidance covered government-wide pay systems, such as Senior Executive Service, Senior Level, Scientific or Professional, General Schedule and Federal Wage System. Supplemental guidance covering additional pay systems established by, or managed under, Department of Defense authority, (i.e. Science and Technology Reinvention Laboratories) is attached, along with the OPM/OMB guidance.

Please ensure that all collective bargaining obligations are met prior to implementing any provisions contained herein. If you have questions related to either the supplemental guidance or the OPM/OMB memorandum, my point of contact is Mr. Seth Shulman, Chief of Compensation, Defense Civilian Personnel Advisory Service, who can be reached at (703) 696-2104 or [seth.shulman@cpms.osd.mil](mailto:seth.shulman@cpms.osd.mil).

  
P.M. Tamburrino, Jr.  
Deputy Assistant Secretary  
Civilian Personnel Policy

Attachments:  
As stated



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## **Department of Defense Supplement to OPM//OMB Guidance on Awards for Fiscal Years 2011 and 2012**

### **Applicability**

The limitations on awards and other similar payments prescribed by OPM/OMB are intended to apply to all awards programs in Executive branch agencies, regardless of the source of underlying authority. Thus, the limitations apply to, but are not limited to, the following:

- Organizations whose employees are covered by provisions of title 5 United States Code (U.S.C.) and 5 Code of Federal Regulations (CFR), regardless of the source of their funding;
- Employees paid under authorities of the Defense Civilian Intelligence Personnel System (DCIPS) in title 10 U.S.C. 1601-1614;
- Foreign national employees of the Department of Defense who are eligible for cash awards, as long as receipt of such an award does not conflict with host nation employment law or practice;
- Employees covered by the Physicians and Dentists Pay Plan (PDPP), which is a hybrid title 38 pay system, are covered for purposes of performance awards by 5 U.S.C. 4505a and 5 CFR 451.104(a)(3) and 451.101(e), and for special act awards under 5 U.S.C 4503 and 5 CFR 451.104(a)(2), and are also subject to the limitations prescribed by OPM/OMB; and
- Employees paid under DoD nonappropriated fund (NAF) pay systems.

### **NAF Pay System**

The NAF white-collar pay system was established and is maintained under the long-standing discretionary authority granted to the Secretary of Defense by title 10, U.S.C. (Section 113(b) and (d)), and are not covered by the provisions of 5 U.S.C. and 5 CFR. However, consistent with OMB's authority as the agent of the President, the limitations prescribed by the OPM/OMB memo apply to NAF employees.

NAF employees include crafts and trades employees paid under the Federal Wage System pay schedules, white-collar employees paid under the broad six-level pay band system, and employees in child and youth (CY) programs paid under the two-level CY pay band. NAF employees are primarily paid with funds generated through the Military Services and Defense Agencies' sale of goods and services to DoD military and civilian personnel and their family members. Monetary awards and white-collar performance-based pay increases are paid to the extent that funds are available and performance standards are met. Each Component establishes performance criteria consistent with the NAF financial goal of their NAF business units. Funding for performance awards and merit pay increases is generally dependent upon

achievement of the unit's pre-determined financial goal. In this performance-driven business environment, additional guidance is required to apply the OPM/OMB limitations.

- Lump-sum cash bonuses and awards for NF-6 senior level executives are limited to up to 5% of the aggregate salaries of the Component's NF-6 level executives.
- Lump-sum cash bonuses and awards (including special act awards) for individual NAF employees in positions other than NF-6 are limited to 1% of aggregate salaries of those employees.
- Other awards, such as group cash awards, cash awards recognizing achievements such as individual and group suggestion and invention, and cost saving referrals of job candidates are not covered by the 1% limitation, but are frozen at FY 2010 levels.
- A cash bonus paid out to all employees in a unit as a result of achieving a set financial or profit goal is considered a group award. The financial or profit-sharing formula used in FY 2010 will be used to determine the group award in FY 2011 and 2012.
- When a performance-based continuing pay increase cannot be fully applied due to pay band limitations, the excess amount is generally paid as a lump sum from the funding available for continuing pay increases. Payments of this nature are not considered performance awards and are not counted against the 1% budgetary limitation imposed by the OPM/OMB memorandum.
- Components will establish a means to monitor adherence to budget limits and provide oversight. Components will provide the Office of the Deputy Assistant Secretary of Defense (Civilian Personnel Policy) with a report on annual NAF awards spending.

### **Alternative Pay Systems**

Alternative pay systems, such as the Science and Technology Reinvention Laboratories (STRL), Acquisition Demonstration Project and the National Security Personnel System (NSPS), rely on broad pay bands, which typically incorporate multiple GS grades. Funding of monetary rewards for performance is allocated differently than for employees covered by other pay and performance systems, and requires additional guidance.

- For situations in which funding levels for performance-based compensation and/or awards are specifically identified in *Federal Register* notices, and those levels are greater than the limitation prescribed by OPM/OMB, the *Federal Register* amounts are controlling. If, however, the *Federal Register* language is not prescriptive, then the OPM/OMB limitations apply.
- Typically, pay pools for broad-banded systems have two funds for performance recognition – (1) continuing pay increases and (2) performance awards formerly covered by 5 U.S.C. 4505a and 5 CFR 451.104(a)(3) and 451.101(e) – that are maintained separately. In addition, many systems have a fund for (3) special acts, inventions, etc.,

covered by 5 U.S.C 4503 and 5 CFR 451.104(a)(2) (or equivalent authority). As noted above, unless specifically identified in *Federal Register* notices, the funding for categories (2) and (3) may not exceed the OPM/OMB 1% limitation.

- When a performance-based continuing pay increase cannot be fully applied due to pay band limitations, the excess amount is generally paid as a lump sum from the funding available for continuing pay increases. Payments of this nature are not considered performance awards under 5 U.S.C. 4505a and 5 CFR 451.104(a)(3) and 451.101(e) or a special act award under 5 U.S.C 4503 and 5 CFR 451.104(a)(2), and are not counted against the 1% budgetary limitation imposed by the OPM/OMB memorandum for FY 2011 and 2012. However, if the excess amount is added to the funding available for performance-based bonuses and awards, such a lump-sum payment would be grouped with other awards subject to the OPM/OMB 1% limitation.
- The fact that employees covered by the National Security Personnel System (NSPS) have been converting back to the GS pay system needs to be taken into account in applying the limitation on QSIs—namely, that QSI spending levels in FY 2011 and 2012 should not exceed the QSI spending levels in FY 2010. While NSPS did not provide QSIs, it redirected funds that historically had been paid as QSIs into NSPS performance-based salary increases—using the historical value of QSIs as a percentage of aggregate salaries. Since the DOD GS population will be larger in FY 2011 and 2012 due to conversions out of NSPS, the QSI limitation will be applied by expressing QSIs as a percentage of aggregate salaries, instead of comparing dollar amounts

### **Use of Non-Monetary Rewards**

A well-managed recognition program provides managers non-monetary options to recognize performance and contributions to mission. Time off awards are not counted toward the 1% spending limitation; however, Q&A 14 in the OPM/OMB guidance does ask agencies to refrain from increasing time off awards to compensate for the restrictions on cash awards. Managers are strongly encouraged to make full use of the many honorary awards available throughout the Department to recognize and reward hard work that may otherwise only ever be done via a cash bonus or performance award. Recognition in any form should be done publicly to maximize awareness that good performance and solid contributions will be recognized. The limitation on how much money may be spent by the Department should not result in less recognition of employee performance.

### **Recruitment, Retention and Relocation Incentives**

Amounts budgeted for, or paid to, employees as recruitment, relocation or retention incentives are not awards as defined in 5 U.S.C. 4505a or 5 CFR 451.104(a)(3) and 451.101(e), or special acts under 5 U.S.C 4503 and 5 CFR 451.104(a)(2), and do not count toward the OPM/OMB awards limitation. However, as noted in the attached OPM/OMB guidance, spending for these incentives in calendar years 2011 and 2012 may not exceed calendar year 2010 levels (reporting to OPM for these incentives is done on a calendar year, not fiscal year, basis).

## **Labor Relations**

All collective bargaining obligations must be met prior to implementing the provisions of either OPM/OMB or this supplemental guidance. Collective bargaining agreements or past practices may provide for a structure and minimum award amounts or percentages based on the ratings received by employees. Management must reach agreement with the union prior to implementing a change to an agreement or past practice. Management cannot unilaterally change the agreement or practice based on the awards limits prescribed by OPM.

## **Equity**

OPM/OMB requires that agencies reduce award spending for non-SES/SL/ST (or equivalent) performance awards and individual contribution awards for all employees to no more than 1% of aggregate salaries for awards with effective dates during FY 2012, with "progress toward that level" in FY 2011. The memorandum further states that agencies already spending at or below these levels must continue to limit spending to FY 2010 levels.

At this late point in the current fiscal year, there have been a number of performance cycles that have already been completed across the Department and for which performance has been recognized, perhaps using spending levels that were higher either than prescribed by OPM/OMB or FY 2010 spending levels. However, there are a number of performance cycles that are in the process of being concluded, or will conclude prior to the end of the current fiscal year, for which performance has yet to be recognized or rewarded.

The fact that the OPM/OMB memorandum calls for showing progress toward the 1% spending level in the current fiscal year may lead to a perceived requirement to reduce the amount of money available for performance and other awards for the remainder of FY 2011 regardless of all other considerations. The objective of showing progress toward the 1% spending level must be pursued while maintaining a reasonable degree of equity, which should be a key management objective that is considered in the distribution of all awards.