

SEP 26 2014



UNITED STATES DEPARTMENT OF COMMERCE  
Chief Financial Officer and  
Assistant Secretary for Administration  
Washington, D.C. 20230

MEMORANDUM FOR      Secretarial Officers  
                                 Operating Unit Heads  
                                 Principal Human Resources Managers

FROM:                      Ellen Herbst *Ellen Herbst*  
                                 Chief Financial Officer and  
                                 Assistant Secretary for Administration

SUBJECT:                      2014 End-of-Year Guidance for Senior Executive and Senior  
                                 Professional Employees

On September 30, 2014, the Department of Commerce (Department) will conclude its first year on the government-wide Senior Executive Service (SES) performance management system. The Department obtained full certification of its new SES performance management system, and maintained full certification of its Senior Professional (ST/SL) performance management system. Full certification is only obtained when agencies demonstrate that their executives are being held accountable for individual and organizational results and are making meaningful distinctions in ratings and compensation based on relative performance. Retention of full certification requires that we adhere to the requirements of the new system, and critically assess and appropriately reward the contributions of each executive to the success of the Department's mission and programs. This is essential to keeping the Department's efforts aligned with its strategic plan and agency priority goals as well.

The Deputy Secretary serves as the Senior Assessment Official. To achieve certification of the Senior Executive and Senior Professional Performance Management systems, the Deputy Secretary must certify that:

- the Department's appraisal process makes meaningful distinctions based on relative performance;
- results of the appraisal process take into account the bureaus' assessments of their performance against program assessment results; and
- pay adjustments, bonuses, awards, and salaries as well as overall compensation accurately reflect and recognize both individual and organizational performance.

The Departmental and bureau Performance Review Boards (PRB) support the Deputy Secretary's ability to ensure that these criteria are met through their role in the performance management process. The PRBs must ensure that recommended summary ratings meet the performance level definitions under the new SES performance management system. These performance level definitions are referred to as "Performance Standards for Critical Elements" on the government-wide SES appraisal form. Careful and accurate application of the new Performance Standards for Critical Elements is necessary to ensure continued certification of the SES performance management system. The Departmental Executive Resources Board (DERB) expects PRBs to critically review rating recommendations against the Performance Standards and to ensure consistency within and across the organization(s), paying particular attention to ratings higher than Fully Successful. Rating officials, reviewing officials, PRBs, and operating

unit heads must give consideration to the impact of any documented misconduct on the executive's or senior professional's performance, within the parameters of the applicable performance requirements or performance standards for the position during the relevant appraisal period, when making recommendations on summary performance ratings and performance awards. Guidance on the activities, responsibilities and composition of PRBs, and the SES Performance Standards for Critical Elements is provided in Attachment A of this memorandum. Please note that noncareer executive participation on each PRB is required and the size of participating membership is limited to no more than five members.

Given that the new SES appraisal form is substantially different from the prior SES performance management system form, please give thought as to how it may most effectively be utilized to facilitate the PRB's deliberative process, particularly Parts 6, 7, and 8. Please note that the new SES performance management system requires that narrative summaries detailing performance results be completed. The narrative summaries must describe the specific nature and quality of the executives' performance results, unambiguously convey their contribution to mission accomplishment, and clearly and strongly support the recommendations of the Appointing Authorities.

To facilitate transition to the new system, narrative summaries will be accepted on either Part 6 of the SES Performance Management System Executive Performance Agreement; or, Part 6 may note that the narrative summary is formally documented in an attachment that conforms to the format of Attachment B of this memorandum. In either case, the narrative may not exceed two pages in length, and must be written by the supervisor of record, not by the employee whose performance is being appraised. Ratings may not be artificially elevated to compensate for the near-term lack of ability to recommend performance-based pay increases or performance-based awards. Guidance on adverse action procedures for Career SES members who fail to meet performance requirements is outlined in Attachment C.

Prior to commencement of their work, PRBs will be provided with copies of applicable PRB charter(s) and they will be instructed to critically examine performance appraisals' alignment with strategic goals, results, and accountability. Training on the new Executive Performance Management System, which covered SES and senior professional (ST/SL) performance management has been conducted; however, bureaus should contact their servicing human resources offices and/or the Office of Executive Resources if additional training is needed. Additional training requests will be accommodated.

In accordance with applicable Department Organizational Orders, for positions for which there is a bureau-level counterpart position, in Critical Element 3, "Business Acumen," the Deputy Chief Financial Officer (CFO) will rate the critical element formerly entitled, "Financial Operations and Management," the Chief Information Officer (CIO) will rate the critical element formerly entitled, "Information Technology Management," the Director for Human Resources Management and Chief Human Capital Officer will rate the critical element formerly entitled, "Human Capital Management," and the Director for Acquisition Management will rate the element formerly entitled, "Acquisition Management." The performance feedback process for

Subject: 2014 End-of-Year Guidance for Senior Executive and Senior Professional Employees

Page 3

these positions must be completed in accordance with the timeline provided with this memorandum.

Prior to submission to the Department, bureaus and operating units must review all documentation to ensure that all submissions comply with the policy criteria and reconcile any discrepancies. A documentation submission checklist will be provided to Principal Human Resources Managers under separate cover. They will be required to review the checklist and certify that all submission requirements have been met.

The Office of Personnel Management (OPM) and the Office of Management and Budget recently released guidance on 2014 performance-based bonuses. It does not provide a fixed SES bonus pool percentage; rather, it requires computation involving bureau data that is still being compiled and submitted. At this time, we are able to estimate that the aggregate SES bonus pool will be near 4.8 percent of career executive salaries. You will be notified of your organization's bonus pool via separate memorandum. OPM has not finalized 2015 Presidential Rank Awards requirements; therefore, please be certain to submit nominations in accordance with the guidance contained in Attachment D. Upon receipt of OPM's official guidance, additional instructions will be forwarded to you.

As always, please remind rating and reviewing officials that performance-related recommendations are not final until approved by the Secretary of Commerce. Bureau/operating unit recommendations are not binding, so no written or verbal feedback may be provided to executives until after receipt of the Secretary's approval.

The timetable for end-of-year activities is contained in Attachment E. Please ensure that your staff follows all procedures and adheres to the Departmental timetable. If you have any questions, please feel free to contact Kevin E. Mahoney, Director for Human Resources Management and Chief Human Capital Officer (CHCO) at (202) 482-4807, or Denise A. Yaag, Acting Deputy Director for Human Resources Management and Deputy CHCO/Director, Office of Executive Resources at (202) 482-3600.

Attachments:

Attachment A – Operating Unit/Bureau Performance Review Board (PRB) Guidelines and OPM Appraisal System Criteria

Attachment B – Narrative Summary Format and SES Performance Standards for Critical Elements

Attachment C – Adverse Action Procedures for Career SES Members Who Fail to Meet Performance Requirements

Attachment D – Presidential Rank Award Program Instructions and Sample Formats

Attachment E – Timetable for End-of-Year Senior Employee Activities

## **Operating Unit/Bureau Performance Review Board (PRB) Guidelines**

The following highlights the PRBs' role in performance management and the processes they must follow to meet the Civil Service Reform Act, the Chief Human Capital Officers Act of 2002, and the National Defense Authorization Act of 2004, Office of Personnel Management implementing regulations, and Departmental requirements. These guidelines are supplemented by applicable operating unit/bureau PRB charters.

### **PRB Membership Restrictions**

While additional restrictions may be listed in applicable PRB charters, at a minimum, a member shall not participate in a specific performance appraisal review when he/she is:

1. The senior executive whose performance is being reviewed
2. The rater of the senior executive(s) or senior professional whose performance is being reviewed
3. The direct subordinate of the senior executive whose performance is being reviewed.

To participate in PRB deliberations, each member must have a current performance rating of Fully Successful or higher.

Each PRB must have at a minimum, one member who is not within the organizations under the reporting line of the Secretarial Officer or Operating Unit Head.

Each PRB must include noncareer executive participation. It is encouraged that the executive function as a full member, but at a minimum, in an advisory capacity.

While a greater number of members may be published to ensure a sufficient number of executives are available to convene, PRBs are limited to five convening to perform their performance management cycle-related work.

### **General Process Information**

Prior to commencement of PRB activities, all members must be provided copies of applicable PRB charter(s), the content of which must be discussed with them by a human resources office representative having expertise in executive performance management subject matter. PRBs additionally must be advised that in the conduct of their work they must critically examine performance appraisals' alignment with strategic goals, results and accountability.

PRBs must be diligent in the review process to ensure meaningful distinctions based on relative performance are being made, thereby strengthening the link between performance and pay. In particular, PRBs are required to examine the alignment of executives' performance outcomes with strategic goals.

PRBs review initial summary ratings and, in years in which it is permissible, performance-based pay adjustment and bonus recommendations, and based on Departmental Pay Policy, make recommendations to Appointing Authorities on:

1. Final annual SES, ST and SL summary ratings
2. Performance-based SES, ST and SL bonuses
3. Performance-based SES, ST and SL pay adjustments
4. Presidential Rank Awards

In their review process, PRBs must consider organizational assessments and OPM's criteria for certified performance management systems. Exhibition of these criteria support meaningful distinctions in relative performance. The criteria are provided at the bottom of this attachment.

### **Higher Level Review**

A senior executive may request higher level review of the initial summary rating before they are forwarded to the PRB for review. The senior executive is entitled to one higher level review. The request must be made to the principal human resources manager within 5 work days of receipt of the initial rating. This must be done prior to the PRB considering the executive's rating.

### **Recommendations to Secretarial Officers and Operating Unit Heads**

After review of performance appraisals, initial summary ratings, senior executives' written responses, if any, recommended performance-based pay adjustments and bonuses, organizational assessments, and any related formal documentation of record, PRBs must compare documentation against criteria in PRB charters and assessed for conformance with OPM criteria. Written recommendations regarding senior executive appraisals and ratings must be made to the appropriate Secretarial Officer/Operating Unit Head. PRB recommendations are not binding. When the PRB does not concur with the initial summary rating, or when there is a record of disagreement with the rating by the executive, the PRB must include a written explanation for its recommendation. PRBs must always document their recommendations concerning the proposed performance-based pay adjustments and bonuses on page 5 of the CD-518 form and the PRB Chair must initial them.

### **OPM Criteria**

**Alignment** – Performance expectations' linkage or derivation from the Department's and subordinate organizations' mission, strategic goals, program/policy objectives and/or annual performance plan.

**Consultation** – Evidence is present that performance expectations are based on senior employees' involvement and input and were communicated to the employee at the beginning of the appraisal period and requirements and progress in meeting them was communicated at appropriate times thereafter.

**Results** – The summary material being reviewed reflects that performance expectations for senior employees apply to their respective areas of responsibility; reflect expected Departmental or organizational performance, clearly describe performance that is measurable, demonstrable or observable; and focus on tangible outputs, outcomes, milestones, or other deliverables.

**Balance** – The documentation includes appropriate measures or indicators of results; customer/stakeholder feedback; quality, quantity, timeliness, and cost effectiveness as applicable, and competencies or behaviors that contributed to and are necessary to distinguish outstanding performance.

**Assessment and Guidelines** – Evidence is present that the agency head or designee provides assessments of performance of the agency overall, as well as each of its major program and functional areas, such as GPRA goals and other program performance measures and indicators, and evaluation guidelines issued and based, in part, upon those assessments provided to senior employees, senior employee rating and reviewing officials and the PRB members. Assessments and guidelines are to be provided at the conclusion of the appraisal period but before ratings are recommended.

**Oversight** – There is rigorous oversight of the appraisal process by the agency head or designee who certifies that: 1) the senior employee appraisal process makes meaningful distinctions based on relative performance; 2) results of the process take into account, as appropriate, the agency's assessment of its performance against program performance measures; and 3) pay adjustments, cash awards, and levels of pay accurately reflect and recognize both individual and organizational performance.

**Accountability** – The senior employee's rating (as well as subordinate employee's performance expectations and ratings for those with supervisory responsibilities) appropriately reflect the employee's performance measures, and any other relevant factors.

**Performance Differentiation** – 1) The appraisal process includes a rating level that reflects outstanding performance and provides for clear differentiation of outstanding performance, as defined in the regulations; and 2) the appraisal process results in meaningful distinctions in relative performance based on senior employees; actual performance against rigorous performance expectations. "Relative performance" in this context does not require ranking senior employees against each other. Indeed, such ranking is prohibited for the purpose of determining performance ratings. Rather it is defined as the performance of a senior employee with respect to the performance of other senior employees, including their contribution to agency performance, where appropriate, as determined by the application of a certified appraisal system.

**Pay Differentiation** – Individual pay rates and pay adjustments, as well as their overall distribution, reflect meaningful distinctions among executives based on their relative contribution to agency performance. Agencies must ensure transparency in the process for making decisions. The highest performing senior employees should receive the largest pay adjustments and or highest pay levels (including both basic pay and performance awards), particularly above the rate for level III of the Executive Schedule.

**Narrative Summary**

Bureau: \_\_\_\_\_  
Name of Senior Executive/Professional: \_\_\_\_\_  
Position Title: \_\_\_\_\_  
Recommended Rating (Adjective): \_\_\_\_\_  
Bonus Percentage (As Applicable): \_\_\_\_\_  
Check if Nominee is Under Consideration for a Presidential Rank Award: \_\_\_\_\_

(Narrative not to exceed two pages.)

## Performance Standards for Critical Elements

- **Level 5:** The executive demonstrates exceptional performance, fostering a climate that sustains excellence and optimizes results in the executive's organization, agency, department or government-wide. This represents the highest level of executive performance, as evidenced by the extraordinary impact on the achievement of the organization's mission. The executive is an inspirational leader and is considered a role model by agency leadership, peers, and employees. The executive continually contributes materially to or spearheads agency efforts that address or accomplish important agency goals, consistently achieves expectations at the highest level of quality possible, and consistently handles challenges, exceeds targets, and completes assignments ahead of schedule at every step along the way.
  
- **Level 4:** The executive demonstrates a very high level of performance beyond that required for successful performance in the executive's position and scope of responsibilities. The executive is a proven, highly effective leader who builds trust and instills confidence in agency leadership, peers, and employees. The executive consistently exceeds established performance expectations, timelines, or targets, as applicable.
  
- **Level 3:** The executive demonstrates the high level of performance expected and the executive's actions and leadership contribute positively toward the achievement of strategic goals and meaningful results. The executive is an effective, solid, and dependable leader who delivers high-quality results based on measures of quality, quantity, efficiency, and/or effectiveness within agreed upon timelines. The executive meets and often exceeds challenging performance expectations established for the position.
  
- **Level 2:** The executive's contributions to the organization are acceptable in the short term but do not appreciably advance the organization towards achievement of its goals and objectives. While the executive generally meets established performance expectations, timelines and targets, there are occasional lapses that impair operations and/or cause concern from management. While showing basic ability to accomplish work through others, the executive may demonstrate limited ability to inspire subordinates to give their best efforts or to marshal those efforts effectively to address problems characteristic of the organization and its work.
  
- **Level 1:** In repeated instances, the executive demonstrates performance deficiencies that detract from mission goals and objectives. The executive generally is viewed as ineffectual by agency leadership, peers, or employees. The executive does not meet established performance expectations/timelines/targets and fails to produce – or produces unacceptable – work products, services, or outcomes.



**Adverse Action Procedures for Career SES Members  
Who Fail to Meet Performance Requirements**

**Coverage**

Career SES members who have completed the probationary period, if required, and who are not re-employed annuitants.

**Removal Due to Failure to Meet Annual Performance Requirements**

An Unsatisfactory rating requires a reassignment or transfer within the SES, or removal from the SES in accordance with 5 CFR 430.309(c)(1).

Two Unsatisfactory ratings within any period of 5 consecutive years require removal from the SES in accordance with 5 CFR 430.309(c)(2).

Two less than Fully Successful ratings in any period of 3 consecutive years require removal from the SES in accordance with 5 CFR 430.309(c)(3).

Notice in writing is required at least 30 days before the effective date of the removal action. The notice shall include:

- The basis for the action;
- The executive's placement rights;
- The executive's right to an informal Merit System Protection Board (MSPB) hearing;
- The effective date of removal;
- (If applicable), the appointee's eligibility for immediate discontinued service retirement in lieu of placement rights.
- The fallback position to a GS-15 or equivalent position will be identified.
- Notice of the right to an informal hearing before MSPB at the employee's request at least 15 days before the effective date of removal.

Removal for less than Fully Successful performance cannot be made effective within 120 days after the appointment of a new Secretary of Commerce or the appointment of the career appointee's most immediate supervisor who is a noncareer appointee and has the authority to remove the career appointee (the Secretarial Officer). This restriction does not apply when the career appointee has received a final rating of Unsatisfactory under the Department's performance appraisal system before the appointment of a new agency head or Appointing Authority.

## Presidential Rank Award Program Instructions

### General Information

To recognize prolonged high quality accomplishment, the President awards the rank of Distinguished Executive, Distinguished Senior Professional, Meritorious Executive, and Meritorious Senior Professional each year to a select number of SES career executives and senior career professionals.

Distinguished Executive and Distinguished Senior Professional Rank Awards recognize sustained extraordinary accomplishment and include an award of 35 percent of base pay.

Meritorious Executive and Meritorious Senior Professional Rank Awards recognize sustained accomplishment and include an award of 20 percent of base pay.

The Department submits its nominations to OPM which administers the Presidential Rank Award Review Boards, composed of private citizens. Separate Review Boards evaluate SES nominations and the senior professional nominations. Each Board has three members who individually evaluate and rate the accomplishments described in the justification statements. Each member makes an independent judgment on the cases presented.

The Review Boards for the Distinguished Rank Awards meet in Washington, DC, usually in March or April. OPM conducts inquiries on all nominees for Distinguished Rank Awards that the Review Boards recommend for approval and pays the cost of these inquiries. Distinguished nominees who do not score high enough to be recommended for approval are referred to Meritorious Review Boards, if eligible.

### Submission Requirements

Nominations must be signed by the appropriate Secretarial Officer and/or Head of the Operating Unit before submission to the Department. By signing this document, the Secretarial Officer/Head of the Operating Unit affirms that all information and accomplishments in the nomination are accurate.

Each nomination must contain the following original documentation (and four (4) copies), arranged in the order listed below:

- Form CD-590, Executive Personnel Transaction (available on the Department's forms website), signed by the Secretarial Officer or Head of the Operating Unit. Please note, bureaus must ensure that all information on the CD-590 matches exactly the data provided on the nomination form.
- Completed copy of the applicable Presidential Rank Award Program Nomination Form signed by the Secretarial Officer. Each nomination form must be complete and legible.
- Biographical Summary in bullet form that describes the executive's current position and lists highlights from his/her SES or ST/SL career.
- Accomplishment Summary which lists accomplishments attained by the executive which serve as the basis for the nomination and are elaborated upon in the Justification

Statement. The Biographical Summary and Accomplishment Summary, combined, may not exceed one page.

- A Justification Statement that addresses the nominee's career accomplishments in terms of the Senior Executive or senior professional criteria in a concise manner. The Presidential Rank Award Review Board members will evaluate the nomination against the same criteria. The justification statement may not exceed three (3) pages in length; longer justifications will be returned without action. Please spell out acronyms and abbreviations. Do not use any staples or paper clips in the nomination folder. The justification heading should indicate the individual's name, title, and operating unit.
- A summary data sheet listing rank nominees showing name, the current and previous 3 years' performance ratings, years of service with the Department, previous recognition, including rank awards for which nominees were recommended but not approved. See Attachment E-1.
- The accounting classification code number to be used for payment of an award.
- The work phone and fax number of each nominee.

Bureaus must ensure that nominations meet OPM and DOC requirements exactly, and all packages must be free of typographical errors. Nominations returned for rewriting or other corrections should be rare. All required documentation must be received in the Department's Office of Human Resources Management, Office of Executive Resources, by the deadline to ensure that review and preparation for the DERB are not delayed.

If you have questions concerning the Presidential Rank Award Program or the nomination procedures, please call Terri Lucente, Executive Resources Policy Program Manager, at (202) 482-1630.

[Name of Operating Unit]

**DISTINGUISHED NOMINATIONS**

NAME	RATING YEAR '14	PRIOR RATINGS			YEARS OF SERVICE	PREVIOUS RECOGNITION*
		'13	'12	'11		
1. Jane Doe	O	O	C	O	15	'13 – 7% Bonus '12 – Meritorious Rank
2. John Sanchez	C	O	O	O	12	'13 – 7.5% Bonus '12 – Dist/Nominee/NS

**MERITORIOUS NOMINATIONS**

NAME	RATING YEAR '14	PRIOR RATINGS			YEARS OF SERVICE	PREVIOUS RECOGNITION*
		'13	'12	'11		
1. Jerry Brown	O	O	O	C	21	'13 – 7% Bonus '11 – 6% Bonus '05 – Gold Medal '02 – Nobel Prize '99 – Merit/Nominee/NS
2. Gina Chin	C	C	O	O	6	'13 – 07.5% Bonus

\*When an executive received an SES bonus in the past, provide the year and percent of the bonus as illustrated. **Do not provide the dollar amount.**

**Timetable for End-of-Year Senior Executive/Professional Activities**

September 30, 2014	End of FY 2014 Senior Executive/Professional Performance Cycle.
September/October 2014	End-of-Year Guidance issued.
October 2-7, 2014	Executive Resources Information System (ERIS) is populated via download from the National Finance Center (NFC) and forwarded to the bureau contacts.
October 14, 2014	<p>Recommended rating and appraisals for bureau CFOs, CIOs, PHRMs, and AMs covering the Department's 25 percent of "Business Acumen" ratings for the "Financial Operations and Management," "IT Management," "Human Capital Management," and "Acquisition Management" critical elements are provided to the Office of Executive Resources to transmit to bureaus for consolidation into CFOs', CIOs', PHRMs' and AMs' overall ratings, respectively.</p> <p>Principal Human Resources Managers forward performance ratings of executives requesting higher level review for executives who exercise this option and for which no higher level exists in the bureau or operating unit.</p> <p>Organizational assessment results are issued to bureaus as required by OPM regulations.</p>
October 16, 2014	<p>Bureaus provide performance recommendations for those executives requiring Departmental Performance Review Board (DPRB) review to OHRM, Office of Executive Resources. DPRB completes review of performance ratings of executives requesting higher level review and forwards recommendations to the Secretarial Officers for their PRBs' consideration.</p> <p>Office of the General Counsel (OGC), Chief Information Officer (CIO), CFO/ASA and the Office of the Secretary (OS) provide recommended ratings to the Director of Human Resources Management (HRM), OHRM, for Office of the Secretary PRB review.</p>
October 27-31, 2014	Bureaus, including OS, provide performance recommendations and Presidential Rank Award nominations to bureau operating Performance Review Boards (PRB) and convene PRBs and the DPRB.
November 5, 2014	Results of DPRB review of performance recommendations are provided to bureau heads by the Director for HRM/CHCO.

Results of the OS PRB are provided to OGC, CIO, CFO/ASA, and OS by the Director for HRM/CHCO.

- November 12, 2014      Bureaus, OGC, CIO, CFO/ASA, and OS complete review process. Secretarial Officers submit performance recommendations (with appraisals and narrative justifications) and Presidential Rank Award nominations to the Director of HRM, for the Departmental Executive Resources Board (DERB) review.
- December 1-9, 2014      DERB meets and finalizes recommendations on performance outcomes and Presidential Rank Awards and submits them to the Director for HRM/CHCO.
- December 16, 2014      Final decisions are made by the Secretary of Commerce
- December 28, 2014      Performance-based bonuses are effective
- December 29, 2014      OHRM electronically transmits approved information to NFC
- January 11, 2015      Pay period 1 – Effective SES, ST/SL pay adjustments effective.
- January 22, 2015      Official pay date for FY 2014 SES and ST/SL performance-based bonuses. SES and ST/SL bonuses will be included in pay period 26 salary payment.
- February 5, 2015      Official pay date in which SES and ST/SL performance-based pay adjustments will be included.