



March 2024

HUMAN CAPITAL

Characteristics and Administration of the Federal Wage System

GAO Highlights

Highlights of [GAO-24-106657](#), a report to congressional committees

Why GAO Did This Study

The Prevailing Rate Systems Act of 1972 established the FWS for federal blue-collar employees who work in trade, craft, and labor. The act's underlying principles are to set pay rates for federal blue-collar workers in line with local prevailing (or market) rates and provide equal pay for substantially equal work. However, subsequent actions by Congress have limited the maximum pay adjustments granted to certain FWS employees, tying them to the average GS pay adjustment.

The Joint Explanatory Statement for the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023 includes a provision for GAO to review the administration of the FWS. This report describes (1) characteristics of the FWS and GS pay systems and how they compare, and (2) the process for administering the FWS.

GAO reviewed legislation; OPM regulations, memorandums, guidance, and documentation; DOD guidance, data, and documentation; and Federal Prevailing Rate Advisory Committee reports. GAO also interviewed OPM and DOD officials and Federal Prevailing Rate Advisory Committee members (comprised of agency and labor management representatives) who provide input to OPM on defining wage areas.

DOD and OPM provided technical comments on a draft of this report, which GAO incorporated as appropriate.

View [GAO-24-106657](#). For more information, contact Yvonne D. Jones at (202) 512-6806 or jonesy@gao.gov.

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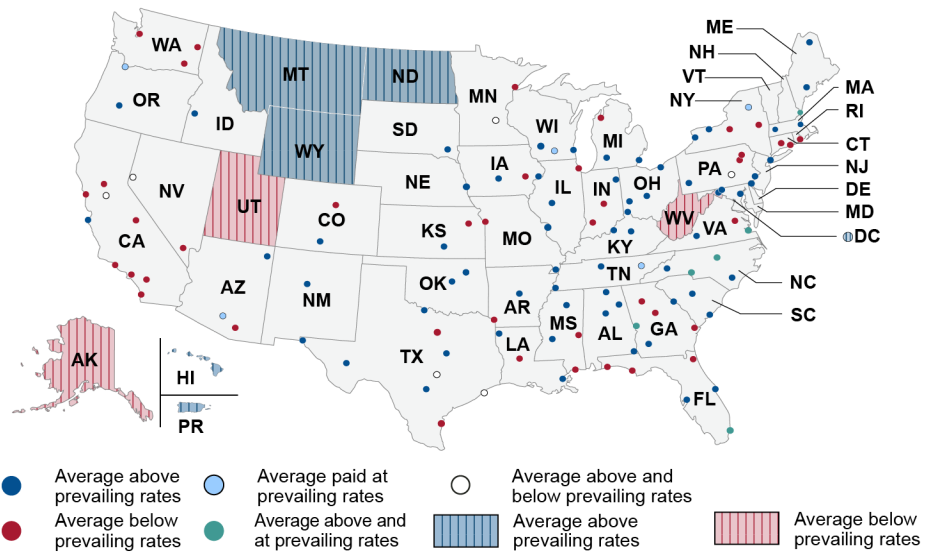
What GAO Found

The Federal Wage System (FWS) and General Schedule (GS) pay system cover about 192,455 federal blue-collar wage grade and 1.5 million federal white-collar GS employees as of 2023, respectively. Each pay system has its own separate laws, regulations, and policies that govern how it is to be administered.

FWS employees receive an annual pay adjustment based on pay comparisons between FWS and private sector jobs in defined wage areas that require similar skills and responsibilities. Congressional actions have capped the FWS pay adjustments so they do not exceed the average GS pay adjustment since fiscal year 1979. This is due to budgetary concerns, according to Office of Personnel Management (OPM) officials.

Since fiscal year 2004, congressional actions have required FWS employees to receive at least the same wage schedule adjustment in percentage terms that GS employees receive where they work. According to OPM and Department of Defense (DOD) officials, linking FWS pay adjustments to GS pay adjustments has resulted in FWS pay rates that are below or above prevailing (market) levels.

Average Wage Schedule Rates Compared to Prevailing Wage Rates for Nonsupervisory Employees in Appropriated Fund (AF) Wage Areas for Fiscal Year 2023



Source: GAO presentation of Department of Defense wage analysis; Map Resources. | GAO-24-106657

Note: Employees in AF wage areas are generally funded from the Treasury. In some cases, data showed that the average wage rates were both above and below prevailing (or market) rates where there are multiple wage schedules associated with a single AF wage area.

The process for administering the FWS includes: (1) establishing and combining wage areas, (2) conducting wage surveys, and (3) setting wage schedules. OPM defines wage areas based on geographic concentrations of FWS employees and private employment. Designated by OPM, DOD conducts annual surveys to collect data from private sector establishments within the wage areas and sets hourly pay rates for the wage schedules.

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Abbreviations

AF	appropriated fund
DOD	Department of Defense
DODWC	DOD Wage Committee
EHRI	Enterprise Human Resources Integration
FEPCA	Federal Employees Pay Comparability Act of 1990
FY	fiscal year
FPRAC	Federal Prevailing Rate Advisory Committee
FWS	Federal Wage System
GS	General Schedule
LWSC	Local Wage Survey Committee
MSA	metropolitan statistical area
NAF	nonappropriated fund
NAICS	North American Industry Classification System
OMB	Office of Management and Budget
OPM	Office of Personnel Management
Pay Agent	President's Pay Agent
RUS	rest of United States

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March 5, 2024

The Honorable Jack Reed
Chairman
The Honorable Roger Wicker
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Mike Rogers
Chairman
The Honorable Adam Smith
Ranking Member
Committee on Armed Services
House of Representatives

Prior to 1968, each federal agency had independent authority to determine local prevailing (or market) rates and establish wage area boundaries for its blue-collar employees.¹ As a result, federal blue-collar employees performing work at the same grade level in the same cities could have been paid differently. The Prevailing Rate Systems Act of 1972 was enacted to establish the Federal Wage System (FWS) for federal blue-collar employees who work in trade, craft, and labor.² Examples of FWS occupations include employees who work as custodians; handle the storage, transfer, or shipment of missile and toxic materials; and maintain and repair buildings and utilities.

FWS was generally designed to set pay rates for federal blue-collar employees in line with local prevailing (or market) rates and provide equal pay for substantially equal work. However, subsequent congressional actions over time, primarily in annual appropriations laws, have placed limits on the maximum pay adjustments granted to certain FWS

¹S. Rep. No. 92-791 (1972).

²Pub. L. No. 92-392, 86 Stat. 564 (1972) (codified as amended at 5 U.S.C. §§ 5341-5349). According to Office of Personnel Management guidance, the types of occupations covered under the FWS include those employed in or under an agency in a recognized trade or craft, skilled mechanical craft, or manual labor occupation. See Office of Personnel Management, *Appropriated Fund Operating Manual, Subchapter S2* (Washington, D.C.: Dec. 31, 1993; revised June 2020), and *Nonappropriated Fund Operating Manual, Subchapter S2* (Washington, D.C.: Dec. 31, 1993; revised June 2020). Employees who perform this work are typically referred to as blue-collar employees.

employees, tying them to the average General Schedule (GS) pay adjustment.³ As a result, Office of Personnel Management (OPM) and Department of Defense (DOD) officials stated that the FWS wage rates have deviated from the prevailing rates with some wage rates being below and others above market rates.

The Joint Explanatory Statement for the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Pub. Law No. 117-263, 136 Stat. 2395 (2022), includes a provision for us to issue a report describing how the FWS compares to the GS system and the administration of the FWS.⁴ This report describes (1) characteristics of the FWS and GS pay systems and how they compare, and (2) the process for administering the FWS. For both objectives, we are describing the processes and systems for the FWS and GS as of 2023, unless otherwise noted.

To address the first objective, we first identified the required characteristics outlined in the Joint Explanatory Statement, which included (1) occupational coverage, (2) geographic coverage, (3) pay ranges, (4) pay adjustments, and (5) pay increase (or adjustment) limits. In conducting our work, we identified two additional characteristics to use to compare both pay systems, including underlying principles and availability of government-wide pay flexibilities based on our prior work on compensation.⁵ We also reviewed legislation on the pay systems; OPM regulations; OPM memorandums and guidance, such as annual pay adjustments and human resources flexibilities and authorities; OPM and DOD documentation; Federal Salary Council and President's Pay Agent reports for 2024 (published in 2023); annual Federal Prevailing Rate Advisory Committee (FPRAC) reports for 2008 through 2020, and 2022; monthly FPRAC public meeting minutes for 2017 through 2023; and our

³According to OPM guidance, a position is subject to the General Schedule, even if it requires physical work, if its primary duty requires knowledge or experience of an administrative, clerical, scientific, artistic, or technical nature not related to trade, craft, or manual labor work. OPM refers to these employees as white-collar employees. See Office of Personnel Management, *Handbook of Occupational Groups and Families*, (Washington, D.C.: December 2018).

⁴168 Cong. Rec. H9488 (Dec. 8, 2022).

⁵GAO, *Human Capital: Administration and Implementation of the General Schedule Locality Pay Program*, [GAO-22-104580](#) (Washington, D.C.: Nov. 30, 2021), and *Federal Pay: Opportunities Exist to Enhance Strategic Use of Special Payments*, [GAO-18-91](#) (Washington, D.C.: Dec. 7, 2017). OPM officials confirmed that these are the characteristics to use to compare both systems.

prior work on the GS locality pay program. We interviewed relevant OPM and DOD officials and FPRAC members on the committee as of February 2023 to understand how characteristics of the FWS and GS pay systems compare.

We also used OPM-reported data from its Enterprise Human Resources Integration (EHRI) system as of May 2023 to determine the total number of GS employees by pay plans, as well as the total number of FWS appropriated fund (AF) employees by AF pay plans.⁶ We used DOD-reported data for the total number of FWS nonappropriated fund (NAF) employees by pay plans. Standard OPM personnel requirements—such as a standard form 50 for processing personnel actions—do not apply to the NAF workforce and they are not reported systematically into OPM’s EHRI database, according to OPM officials.⁷

In addition, we used data reported by DOD that compares average wage schedule rates to prevailing (or market) wage rates for nonsupervisory employees in AF and NAF wage areas to highlight the effect of other factors on FWS wages, including the annual pay adjustment process and the \$15 minimum special rate. For all data used, we asked OPM and DOD officials about the source of the data, how they were collected, and how they were updated. We followed up with agencies in cases where we had questions about the data they had reported and resolved the issues. We found the data to be reliable for purposes of providing information regarding the FWS and GS workforces and the pay systems.

To address the second objective, we reviewed legislation on the FWS; OPM regulations; OPM guidance and DOD documentation on the wage survey and wage schedule processes; Federal Salary Council and President’s Pay Agent reports for 2024 (published in 2023) to help inform how FWS wage areas could be affected by changes in GS locality pay areas; and our prior work on the FWS.⁸ We also interviewed OPM and DOD officials, all the FPRAC members on the committee as of February 2023, and all the DOD Wage Committee (DODWC) members on the

⁶The number of GS federal civilian employees is based on OPM’s EHRI-Statistical Data Mart data, which cover most of the federal executive branch civilian employees. It does not include the U.S. Postal Service, judicial branch employees, intelligence agencies, nor most legislative branch employees. Appropriated fund employees are generally funded from the Treasury.

⁷Nonappropriated fund employees are generally funded by facility-generated dollars.

⁸For our prior work on the FWS, see GAO, *Improving the Pay Determination Process for Federal Blue-Collar Employees*, [GAO-FPCD-75-122](#) (Washington, D.C.: June 3, 1975).

committee as of July 2023 to obtain information on their roles and responsibilities for administering the wage surveys and setting the wage schedules.⁹ For more information on our objectives, scope, and methodology, see appendix I.

We conducted this performance audit from February 2023 to March 2024 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Without a central authority to establish wage equity for federal employees who worked in trade, craft, and manual labor occupations, President Johnson issued a memorandum in November 1965 requiring the development of a single system that included common job standards and wage policies and practices to ensure interagency equity in wage rates using statistically valid wage surveys.¹⁰ The memorandum also tasked the Civil Service Commission to work with federal agencies and labor organizations to coordinate this effort.

The Civil Service Commission developed the Coordinated Federal Wage System to help address the pay inequities and overlapping administrative structures from the blue-collar pay determination process.¹¹ This system replaced the separate wage board systems previously maintained by individual agencies. It was designed to ensure that (1) hourly employees of all federal agencies in the same local wage area received equal pay for substantially equal work, and (2) pay distinctions were maintained in keeping with work distinctions.

In August 1972, Congress replaced the Coordinated Federal Wage System with the FWS, which is designed to provide an equitable system for fixing and adjusting the rates of pay for prevailing rate employees and

⁹DODWC is comprised of DOD agencies and labor organizations that represent FWS employees.

¹⁰Executive Office of the President, *Memorandums on the Need for Coordinating the Practices of Federal Wage Boards*, 1965 WL 190681 (Washington, D.C.: Nov. 16, 1965).

¹¹The President approved the Coordinated Federal Wage System in December 1967. It took effect in July 1968.

for other purposes.¹² The law directs that common job standards, wage policies, and practices be developed to ensure interagency equity in wage rates. It also provides for the coordination of wage-fixing practices among the different departments and agencies.

The FWS pay system covers about 192,455 federal blue-collar hourly employees or about 11 percent of all federal civilian workers.¹³ These employees are divided into two groups: (1) AF employees generally funded from the Treasury and (2) NAF employees generally funded by facility-generated dollars, such as exchange services and commissaries on military bases. There are approximately 168,314 AF and 24,141 NAF employees, as of May and October 2023, respectively.¹⁴

As of 2023, there are 248 wage areas (including 130 AF and 118 NAF areas) that cover the U.S. and its territories where FWS employees work.¹⁵ These wage areas are used to help determine the pay rates for FWS employees. The wage areas are established where there are large concentrations of FWS employment along with concentrations of private industry employment. Each wage area consists of a survey area (counties in which wage data are collected) and the adjacent area of application (counties in which the FWS wage schedule is applied in addition to the survey area). Each wage area includes one or more wage schedules that set pay rates for FWS employees. See figure 1 for locations of AF and NAF wage areas.

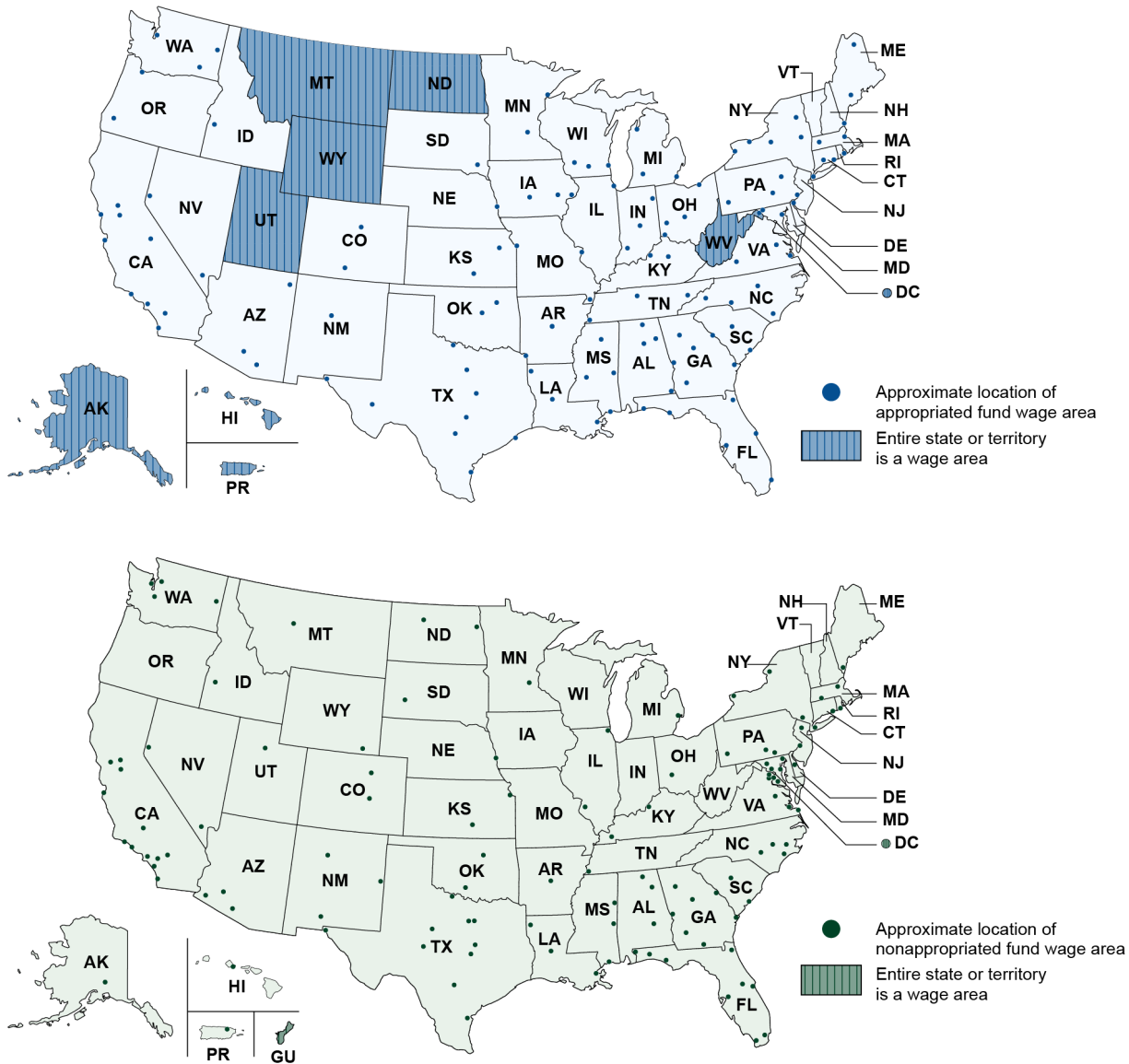
¹²Pub. L. No. 92-392, 86 Stat. 564 (1972) (codified as amended at 5 U.S.C. §§ 5341-5349). Most federal civilian blue-collar employees are covered by the FWS. See 5 U.S.C. § 5342(1)-(2). The FWS built upon the features of the prior system and expanded coverage to include certain employees of the Armed Forces and Veterans Canteen Service employees who work in trade, craft, and labor.

¹³DOD is the largest FWS employer, with the Navy, Air Force, and Army having the largest numbers of FWS employees.

¹⁴For the AF employee count, we used EHRI data reported by OPM as of May 2023 which were the most recent data available at the time of our review. For the NAF employee count, DOD officials provided the numbers as of October 2023.

¹⁵There are no wage areas outside the U.S. and its territories. However, there are wage schedules for AF and NAF employees who work abroad that use an average of all U.S. wage schedules. 5 C.F.R. §§ 532.255, 532.257.

Figure 1: Appropriated Fund and Nonappropriated Fund Wage Areas, as of October 2023



Source: GAO analysis of 5 C.F.R. Pt. 532; Map Resources. | GAO-24-106657

Note: The Federal Wage System pay system covers two types of federal blue-collar employees: appropriated fund employees are generally funded from the Treasury and nonappropriated fund employees are generally funded by facility-generated dollars, such as exchange services and commissaries on military bases. Approximate location of appropriated and nonappropriated fund wage areas includes cities, counties, entire states or territories, and parts of a state, such as Central and Northern Maine. For appropriated fund employees, there are no wage areas in the U.S. territories of Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, and the U.S. Virgin

Islands. For nonappropriated fund employees, there are no wage areas in the U.S. territories of American Samoa, the Commonwealth of the Northern Mariana Islands, and the U.S. Virgin Islands.

Congress outlined the broader principles and structure for the FWS and delegated primary responsibility to OPM (which in turn delegated some responsibility to DOD) to administer the FWS. Congress also created the FPRAC to study and provide recommendations on the FWS to the OPM Director. The roles and responsibilities of Congress, OPM, DOD, and other key entities involved in the administration of the FWS are as follows:

- **Congress.** When creating the FWS, Congress set specific parameters for the pay system, such as defining who is covered under the system and delegating responsibilities to designated agencies and FPRAC.
- **OPM.** Congress provided OPM with the responsibility of issuing regulations to implement and administer the FWS. OPM's regulations include provisions on uniform pay-setting, defining the geographic boundaries of individual wage and survey areas, conducting wage surveys, developing wage schedules, establishing occupational groupings, titling, and a job grading system, and developing and issuing job grading standards.
- **DOD.** Designated by OPM, DOD is the lead agency that conducts the wage surveys, analyzes survey data, and issues wage schedules for all wage areas.¹⁶ Other entities involved in the wage survey and wage schedule processes are:
 - the Local Wage Survey Committees (LWSC), which plan and conduct wage surveys in their designated wage areas and help support the collection of survey data that DOD uses to construct and issue the wage schedules; and¹⁷
 - the DOD Wage Committee (DODWC), which considers matters relating to the conduct of wage surveys and the establishment of

¹⁶Within DOD, the Defense Civilian Personnel Advisory Service Wage and Salary Division is responsible for conducting annual wage surveys to collect wage data from private sector establishments and developing and adjusting wage schedules.

¹⁷See 5 C.F.R. § 532.231(f). The LWSC consists of a chairperson, one member recommended by federal agencies and designated by DOD, and one member recommended by the labor organization that has the largest number of wage employees under the regular wage schedule who are under exclusive recognition in the wage area. See 5 C.F.R. § 532.229(b)(1).

wage schedules and makes recommendations on wage schedules to DOD.¹⁸

- **FPRAC.** Comprised of agency management and labor members, FPRAC is responsible for studying the prevailing rate system and other matters pertinent to the establishment of prevailing rates and for advising the OPM Director on the government-wide administration of the FWS.¹⁹

FWS and GS Pay Systems Have Some Similarities, but Differ Based on Separate Laws, Regulations, and Policies Governing Their Administration

The FWS and GS pay systems cover different categories of federal civilian employees and have separate laws, regulations, and policies that govern how these systems are to be administered. Based on our review of these laws, regulations, and policies, as well as OPM and DOD data, we found that there are similarities and differences between the FWS and GS in terms of the underlying principles of the systems, occupational coverage, geographic coverage, pay ranges, pay adjustments and limits, and availability of pay flexibilities (see table 1).

¹⁸See 5 C.F.R. § 532.227(a). Referred to as the agency wage committee in OPM's regulations, the current DODWC includes two management members from the Army and Navy, two labor members from the American Federation of Government Employees and Metal Trades Department, and one chairperson appointed by DOD.

¹⁹5 U.S.C. § 5347(e). The FPRAC has five agency management members, five labor members, and a chairperson appointed by the OPM Director. As of February 2023, agency management members include OPM, DOD, the Air Force, the Army, and the Department of Veterans Affairs. Labor members include the American Federation of Government Employees (two seats), Association of Civilian Technicians, Metal Trades Department, and the National Association of Government Employees.

Table 1: Characteristics of the Federal Wage System and General Schedule Pay Systems

	Federal Wage System (FWS)	General Schedule (GS)
Underlying principle	To set federal blue-collar hourly pay rates in line with local private sector market rates and provide equal pay for substantially equal work.	To set federal white-collar salaried pay rates in line with nonfederal entities, such as state and local governments and the private sector and provide equal pay for substantially equal work.
Pay adjustments and limits	<p>One annual pay adjustment to each wage schedule based on pay comparisons between FWS and private sector jobs that require similar skills and responsibilities. FWS employees do not receive an across-the-board or locality pay adjustment.</p> <p>Pay adjustment cap and floor amounts cannot exceed or fall below average GS pay adjustments for that year, respectively.</p> <p>Adjusted on a rolling basis throughout the calendar year, depending on wage survey and wage schedule cycle, and are effective not later than the first day of the first pay period beginning on or after the 45th day, excluding Saturdays and Sundays, following the date the wage survey is ordered.</p>	<p>One annual across-the-board pay adjustment and locality pay adjustment to the base GS pay schedules (when provided) based on the local cost of labor for white-collar occupations in a GS locality pay area.</p> <p>Pay adjustments generally cannot exceed the pay rate for level IV of the Executive Schedule (covers political appointees and others).</p> <p>Generally applicable on the first day of the first pay period beginning on or after January 1.</p>
Occupational coverage	About 192,455 employees covering 36 distinct, blue-collar occupational families and 210 occupational series related to trade, craft, and labor.	About 1.5 million employees covering 23 distinct, broad white-collar occupational groups and 411 occupational series related to professional, administrative, technical, clerical, and other kinds of work.
Pay ranges	<p>Hourly pay ranges are based on at least 31 different pay plans covering nonsupervisory, leader, and supervisory employees across 438 regular wage schedules and 91 special wage schedules and vary in the amounts.^a</p> <p>For example, the pay scale for appropriated fund (AF) nonsupervisory employees includes 15 grades and five steps within each grade. The pay scale for AF supervisory workers includes 19 grades and five steps within each grade.</p>	<p>Salary base pay ranges from \$20,999 to \$152,771 for GS-1 step 1 (lowest grade and step) and GS-15 step 10 (highest grade and step), respectively for 2023.</p> <p>Pay scale includes 15 grades and 10 steps (also referred to rates of pay) within each grade.</p>
Geographic coverage	Includes 248 wage areas in the U.S. and its territories as of 2023.	Includes 54 locality pay areas in the U.S. and its territories as of 2023. ^b
Availability of government-wide pay flexibilities^c	Examples include: (1) recruitment, relocation, and retention incentives; (2) special rates; and (3) unrestricted rates.	Examples include: (1) recruitment, relocation, and retention incentives; (2) special rates; and (3) critical position pay.

Source: GAO analysis of statutes, regulations, guidance, and Office of Personnel Management and Department of Defense data related to the FWS and GS systems. | GAO-24-106657

^aThere are different pay range amounts for each of the wage schedules.

^bOPM published a final rule in November 2023 that established four new locality pay areas, which were effective December 2023 and applicable for pay purposes on the first day of the first applicable pay period beginning on or after January 1, 2024. 88 Fed. Reg. 78631 (Nov. 16, 2023).

^cAgencies also may provide additional compensation and leave benefits to support their employee recruitment, relocation, and retention efforts that are specific to the agency and its employees. For

example, an unrestricted rate is an exception to a statutory limitation on FWS pay adjustments if such exceptions are necessary to ensure the recruitment or retention of qualified employees.

Underlying Principles of FWS and GS Pay Systems Are Similar

As provided under law, the underlying principles of the FWS and GS are to set federal blue-collar hourly pay rates and federal white-collar salaries in line with local prevailing wage rates and nonfederal entities, such as state and local governments and the private sector, respectively.²⁰

According to the Prevailing Rate Systems Act of 1972, the underlying principles of the FWS include

- setting equal pay for substantially equal work for all prevailing rate employees who perform similar work within the same local wage area;
- having relative differences in pay within a local wage area when there are substantial or recognizable differences in duties, responsibilities, and qualifications among positions;
- maintaining the rates of pay in line with prevailing rates for comparable work within a local wage area; and
- maintaining the rates of pay to recruit and retain qualified prevailing rate employees.²¹

According to the Federal Pay Comparability Act of 1970, the underlying principles of the GS include

- setting equal pay for substantially equal work within each local pay area;
- maintaining pay distinctions for work and performance distinctions within each local pay area;
- maintaining federal pay rates in line with non-federal pay rates for the comparable levels of work within the same local pay area; and
- eliminating any existing pay differences between federal and non-federal employees.²²

In addition, Congress enacted the Federal Employees Pay Comparability Act of 1990 to help address the challenge of agencies' recruitment and retention of skilled GS employees in areas where nonfederal wages

²⁰5 U.S.C. §§ 5301, 5341.

²¹Pub. L. No. 92-392, 86 Stat. 564 (1972) (codified at 5 U.S.C. § 5341).

²²Pub. L. No. 91-656, § 2(a), 84 Stat. 1946 (1971) (codified at 5 U.S.C. § 5301).

exceeded federal wages.²³ The act introduced a locality-based pay adjustment to reduce reported pay gaps between federal pay and nonfederal pay in specific areas of the U.S. where nonfederal pay exceeds federal pay by more than 5 percent.²⁴

Subsequent Laws and Presidential Actions Setting Limitations on Pay Adjustments Have Contributed to Differences in FWS and GS Wage and Market Rates

Federal Wage System

FWS employees generally receive an annual pay adjustment based on comparison surveys between FWS and private sector jobs in defined wage areas that require similar skills and responsibilities. The FWS pay adjustments are provided on a rolling basis throughout the calendar year depending on when the wage surveys occur and the associated wage schedules are updated, but not later than the 45th day, excluding Saturdays and Sundays, following the date the wage survey is ordered.

Where pay adjustments have been authorized, congressional actions, however, have capped the maximum pay increases granted to FWS employees by providing for a pay adjustment cap to not exceed average

²³Pub. L. No. 101-509, § 529, 104 Stat. 1389, 1427 (1990) (codified at 5 U.S.C. §§ 5301-5307).

²⁴5 U.S.C. § 5304.

GS pay adjustments each year since fiscal year (FY) 1979.²⁵ OPM officials told us that this was done because there were concerns about high-wage inflation and budget pressures during a period when FWS employees were receiving higher increases in some areas than GS employees.

Starting in FY 2004, where pay adjustments have been authorized, congressional actions provided for a minimum floor increase provision (also called the pay adjustment floor) that requires FWS employees to receive at least the same wage schedule adjustment in percentage terms that GS employees in the same geographic area receive where they work.²⁶ While the actual pay adjustment amounts may differ between FWS and GS employees, the pay adjustment floor provision, which has generally been included in annual appropriations laws, guarantees that

²⁵Under Section 737(a) of Division E of the Consolidated Appropriations Act, 2023 (FY 2023 appropriations act) pay increases for certain prevailing rate employees may not exceed 4.79 percent, which is the sum of the January 2023 GS across-the-board percentage adjustment and the difference between the overall average locality payments for GS employees in FYs 2022 and 2023. Section 737(a) applies to wage employees covered by 5 U.S.C. § 5342(a)(2) or 5 U.S.C. § 5348. See Pub. L. No. 117-328, 136 Stat. 4459, 4712-4714 (2022); Office of Personnel Management Memorandum, *Fiscal Year 2023 Prevailing Rate Pay Adjustments* (Dec. 29, 2022). The provisions of the FY 2023 appropriations act have been extended into FY 2024 under the Continuing Appropriations Act, 2024 and Other Extensions Act, as amended by Further Continuing Appropriations and Other Extensions Act, 2024. See Pub. L. No. 118-15, 137 Stat. 71 (2023); Pub. L. No. 118-22, 137 Stat. 112 (2023); Pub. L. No. 118-35, 138 Stat. 3 (2024). As extended, section 737(a) provides that pay increases for certain prevailing rate employees in FY 2024 may not exceed 5.26 percent, which is the sum of the January 2024 GS across-the-board percentage adjustment and the difference between the overall average percentage locality payments for GS employees in FYs 2023 and 2024. Office of Personnel Management Memorandum, *Fiscal Year 2024 Prevailing Rate Pay Adjustments* (Dec. 21, 2023).

²⁶Section 737(b) of Division E of the Consolidated Appropriations Act, 2023 (FY 2023 appropriations act) provides that, notwithstanding section 737(a), pay adjustments for certain prevailing rate employees may not be less than the January 2023 pay adjustments received by GS employees where they work. Section 737(b) applies to wage employees covered by 5 U.S.C. § 5344 or 5 U.S.C. § 5348. See Pub. L. No. 117-328, 136 Stat. 4459, 4712-4714 (2022); Office of Personnel Management Memorandum, *Fiscal Year 2023 Prevailing Rate Pay Adjustments* (Dec. 29, 2022). The provisions of the FY 2023 appropriations act have been extended into FY 2024 under the Continuing Appropriations Act, 2024 and Other Extensions Act, as amended by Further Continuing Appropriations and Other Extensions Act, 2024. See Pub. L. No. 118-15, 137 Stat. 71 (2023); Pub. L. No. 118-22, 137 Stat. 112 (2023); Pub. L. No. 118-35, 138 Stat. 3 (2024). As extended, notwithstanding section 737(a), pay adjustments for certain prevailing rate employees may not be less than the January 2024 pay adjustments received by GS employees where they work. Office of Personnel Management Memorandum, *Fiscal Year 2024 Prevailing Rate Pay Adjustments* (Dec. 21, 2023).

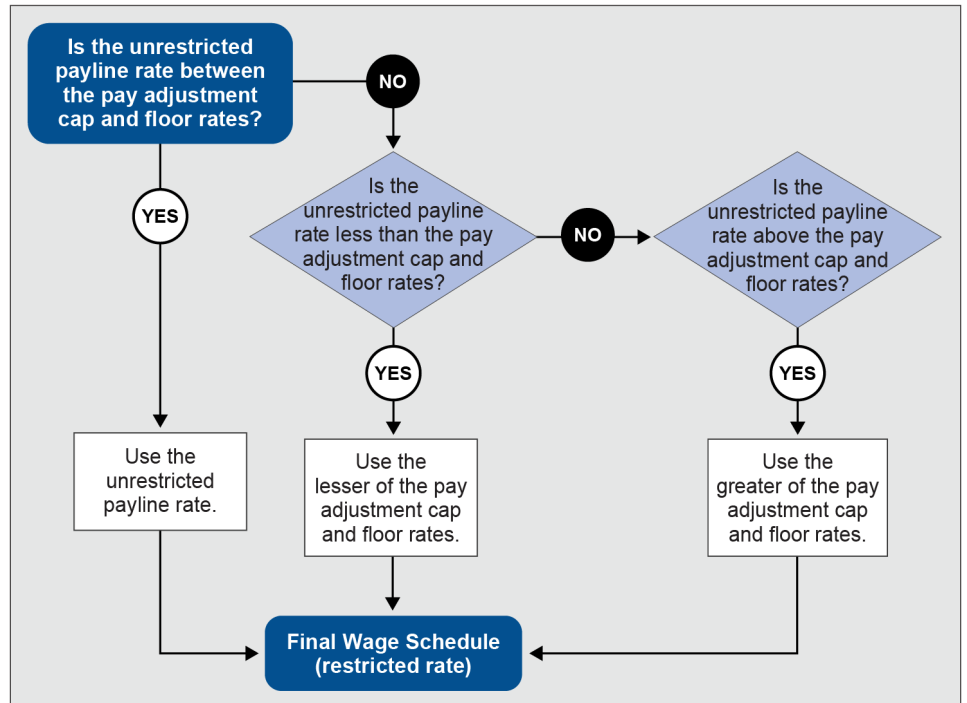
FWS employees do not get a lower percentage adjustment than their GS counterparts within the same GS locality pay area.²⁷

As a result, DOD officials said that annual FWS pay adjustments are either set at the (1) local prevailing rate (also called the unrestricted payline rate), (2) pay adjustment cap rate, or (3) pay adjustment floor rate depending on the FWS employee's wage area survey results.²⁸ As shown in figure 2, DOD officials outlined scenarios for how they apply the unrestricted payline rate, pay adjustment cap rate, and pay adjustment floor rate to calculate the final wage rates for the regular wage schedules.

²⁷Congress passed and the President signed laws specifying that the adjustment amounts would be zero for 2011, 2012, and 2013. As a result of the statutory pay freezes, FWS employees did not receive a pay adjustment for those years.

²⁸DOD calculates the pay adjustment cap to establish the maximum percentage increase a wage area can receive. It also calculates the pay adjustment floor to establish the minimum percentage increase a wage area can receive. Using both pay adjustment cap and floor rates, DOD then compares it to the unrestricted payline rate to determine which of the three rates is used to calculate the final wage rates for the regular wage schedules.

Figure 2: Department of Defense’s Process for Applying Annual Pay Adjustment Rates to Determine Federal Wage System Wage Rates for Regular Wage Schedules



Source: GAO analysis of Department of Defense information. | GAO-24-106657

Note: For Federal Wage System employees, the unrestricted payline rate is the local prevailing (or market) rate based on their wage area survey results according to Department of Defense officials. The pay adjustment cap is the maximum pay percentage increase a wage area can receive while the pay adjustment floor is the minimum percentage increase a wage area can receive.

OPM and DOD officials stated that FWS wage schedule rates have deviated from prevailing wage levels with some wage schedule rates being below market and other wage schedule rates being above market because of external factors, such as the pay adjustment limits tied to the GS pay adjustments. In addition to the pay adjustment cap and floor

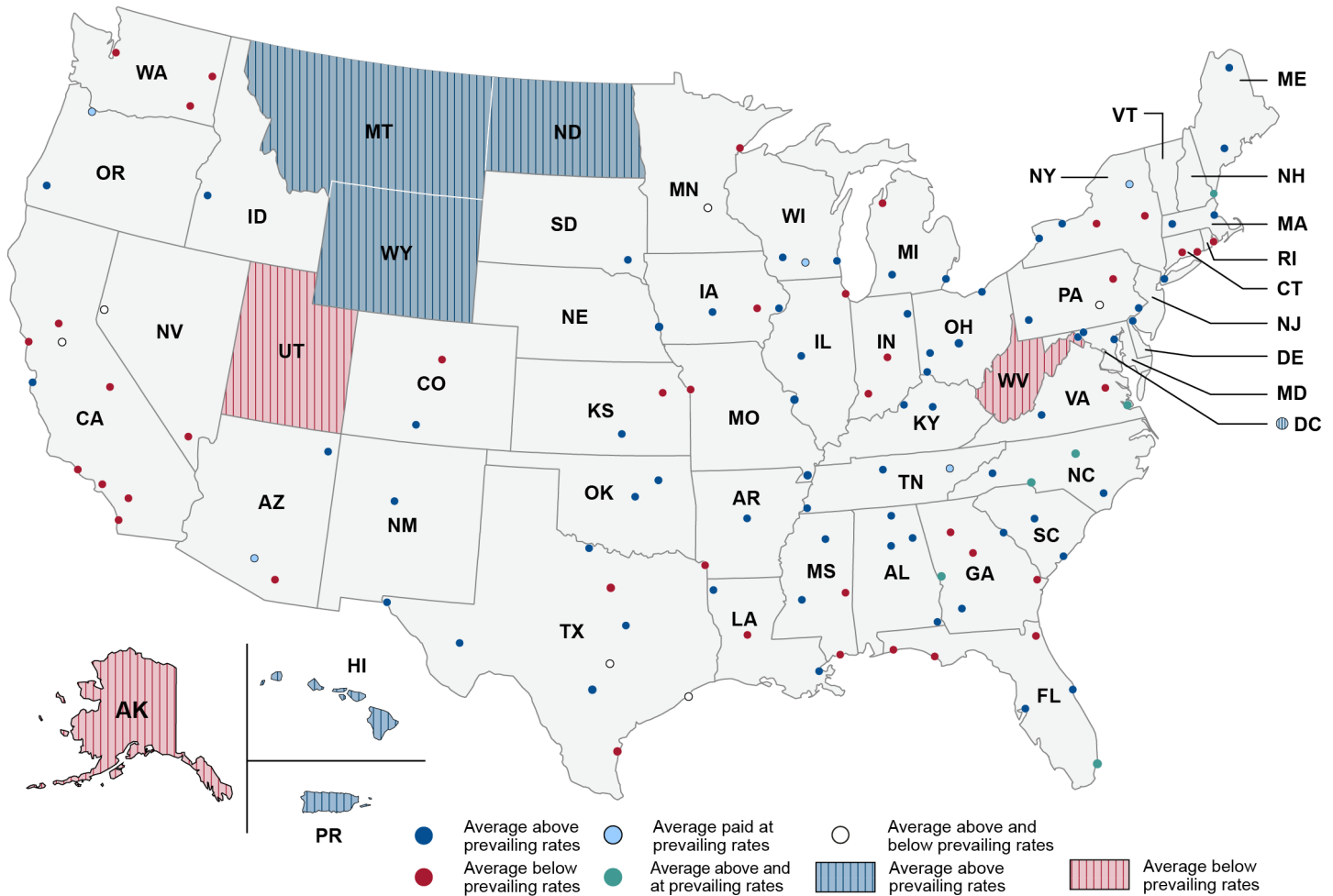
rates, other contributing factors include the \$15 minimum special rate and unrestricted rate.²⁹

According to data reported by DOD, the average AF nonsupervisory wage rates for 117 wage schedules were greater than prevailing rates (ranging approximately from just above 0 to 31 percent), while the average AF nonsupervisory wage rates for 69 wage schedules were below prevailing rates (ranging approximately from 0.25 to 22 percent).³⁰ Of the 117 wage schedules where the average wage schedules were above prevailing rates, 91 of them (or 78 percent) are attributed to multiple factors. As shown in figure 3, average wage schedule rates are either equal to, higher, or lower when compared to prevailing wage rates for AF wage areas.

²⁹As we discuss later, DOD implemented the \$15 minimum special rate for AF and NAF employees in response to OPM's guidance implementing the President's Executive Order directing OPM to provide a report with recommendations to promote a \$15 per hour minimum pay rate for all federal employees, including FWS employees. Unrestricted rates are uncapped and may be authorized for use within all or part of a wage area for a designated occupation or occupational specialization and grade when OPM determines such exceptions are necessary to ensure the recruitment or retention of qualified employees. 5 C.F.R. § 532.801.

³⁰Of the 130 AF wage areas, there are a total of 219 wage schedules for AF nonsupervisory positions. The majority of FWS AF employees (or about 66 percent) are covered under the WG pay plan for nonsupervisory positions.

Figure 3: Average Wage Schedule Rates Compared to Prevailing Wage Rates for Nonsupervisory Employees in Appropriated Fund Wage Areas for Fiscal Year 2023



Source: GAO presentation of Department of Defense wage analysis; Map Resources. | GAO-24-106657

Note: For purposes of the figure, we used the wage area as the unit of analysis. In some cases, the Department of Defense data showed that the average wage rates were both above and below prevailing (or market) wage rates where there are multiple wage schedules associated with a single appropriated fund (AF) wage area. The lined boxes in the legend represent an entire state or territory that is the AF wage area. There are no AF wage areas in the U.S. territories of Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, and the U.S. Virgin Islands. Employees in AF wage areas are generally funded from the Treasury.

According to data reported by DOD, the average NAF nonsupervisory wage rates for 159 wage schedules were above prevailing rates (ranging approximately from 0.14 to 41 percent), while the average NAF nonsupervisory wage rate for 1 wage schedule was below the prevailing

rate at around 7 percent.³¹ Of the 159 wage schedules where the average wage schedule rates were above prevailing rates, 113 of them (or 71 percent) are solely attributed to the \$15 minimum special rate. As shown in figure 4, almost all average wage schedule rates are higher than the prevailing wage rates for NAF wage areas.

³¹Of the 118 NAF wage areas, there are a total of 172 wage schedules for NAF nonsupervisory positions. The majority of FWS NAF employees (or about 11 percent) are covered under the NA pay plan for nonsupervisory positions.

OPM officials, the OPM Director expressed support for the FPRAC's recommendation. The *Analytical Perspectives, Budget of the U.S. Government Fiscal Year 2024* notes the administration's desire to take action to address the pay adjustment cap. OPM officials told us that they have provided technical assistance to the Office of Management and Budget (OMB) and congressional staff on how the pay adjustment cap provision could be phased out through congressional action. As of February 2024, the pay adjustment cap remains in place.

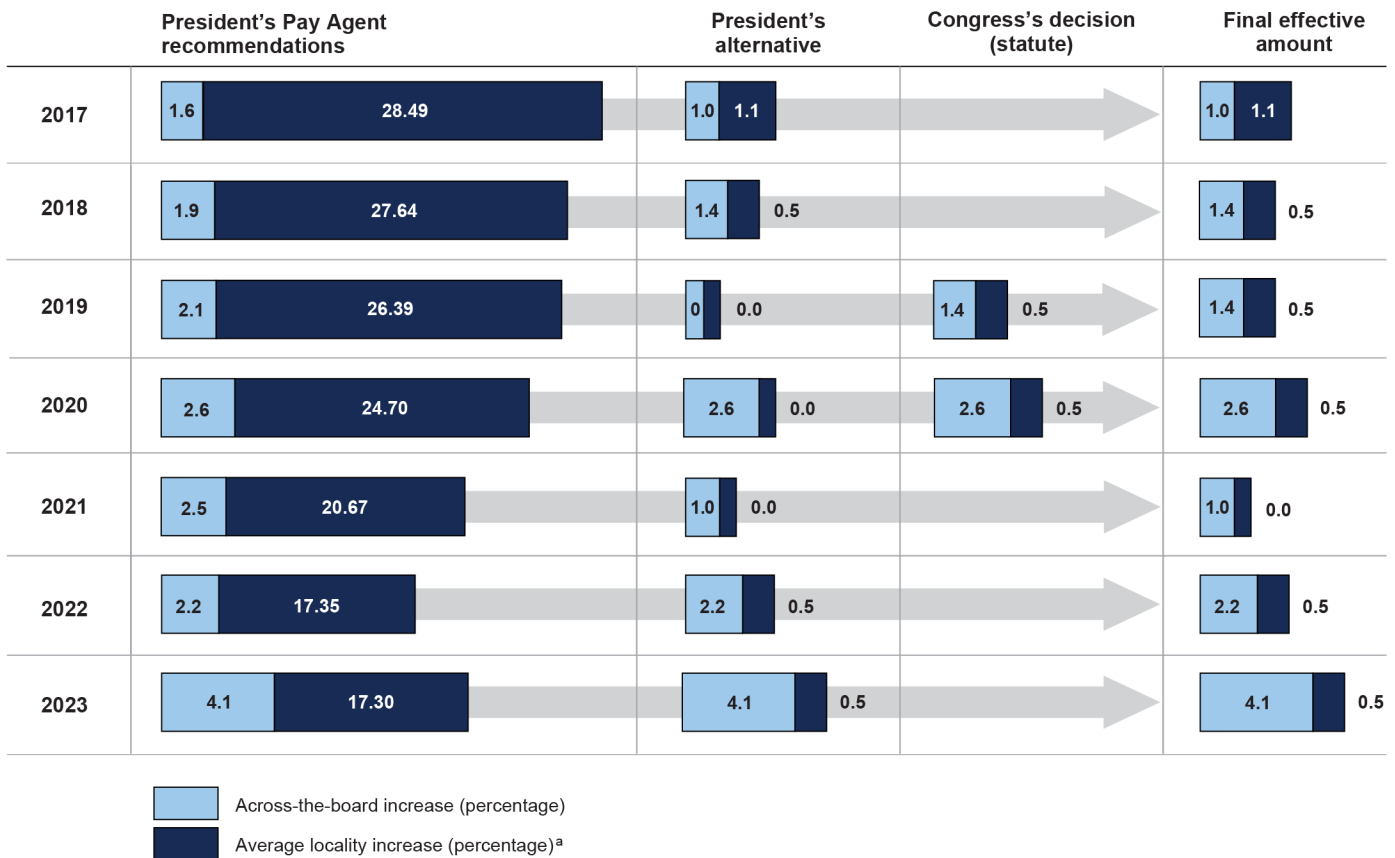
General Schedule

Federal white-collar employees covered by the GS pay system receive a pay adjustment comprised of two components (see fig. 5). The first is an across-the-board pay adjustment, which is the same for each employee to keep the GS base pay schedule in line with salary growth in the general labor market.³³ The second is a locality-based pay adjustment to reduce reported gaps between federal and nonfederal pay in specific areas of the U.S. where nonfederal pay exceeds federal pay by more than 5 percent.³⁴

³³ U.S.C. § 5303. The Federal Pay Comparability Act of 1970 authorized the President to adjust GS pay rates annually and established a system for recommending adjustments with the goal of increasing federal pay to be comparable with the private sector. Pub. L. No. 91-656, 84 Stat. 1946 (1971).

³⁴ U.S.C. § 5304.

Figure 5: Actions to Establish Across-the-Board and Locality Pay Adjustments for General Schedule (GS) Employees, 2017-2023



Source: GAO analysis of legislation and President's Pay Agent, Executive Office of the President, and Office of Personnel Management data. | GAO-24-106657

Note: Under the Federal Employees Pay Comparability Act of 1990, Pub. L. No. 101-509, § 529, 104 Stat. 1389, 1427-1439 (1990) (codified in part at 5 U.S.C. §§ 5301-5307), GS pay adjustments consist of two components: (1) an across-the-board increase that is the same for each employee, and (2) a locality-based increase to reduce reported gaps between federal and nonfederal pay in specific areas of the U.S. The formula for the across-the-board increase provides that pay rates are to be increased by a percentage equal to the 12-month percentage increase in the Employment Cost Index for private sector workers, minus one-half of 1 percentage point. For the locality component of the pay adjustment, the President's Pay Agent reports the annual locality-based comparability payments to the President.

^aAverage locality increase: the average percentage by which a GS employee's salary would increase from the previous year due to locality pay. Employees in localities with below-average pay gaps would receive lower locality adjustments, and those in localities with above-average pay gaps would receive higher adjustments.

However, the goal to reduce pay differences between federal and nonfederal workers has not been met since 1994—the first year of the Federal Employees Pay Comparability Act of 1990's (FEPCA)

implementation—due to the ability of the President and Congress to adjust the formula for locality-based adjustments provided under the law. The President may decide either to provide locality pay adjustments based on a recommendation by the President’s Pay Agent (Pay Agent) or provide pay adjustments through the President’s alternative pay plan authority, which is based on a national emergency or serious economic conditions affecting the general welfare.³⁵ Further, Congress may legislate an outcome that is different from the Pay Agent’s recommendation or President’s alternative pay plan.

Since the authorization of locality pay adjustments began in 1994, some amount of locality-based pay increase has been authorized through the President’s alternative pay plans or through legislation for 24 of the 30 years (1994 to 2023).³⁶ In 1994, the Pay Agent recommended a 3.95 percent average pay increase for GS employees, which went into effect. In all subsequent years through 2023, the effective locality-based pay increase has been less than the one recommended by the Pay Agent.

For the across-the-board pay adjustment, the President authorized the FEPCA formula increase reported by the Pay Agent in 15 of the 30 years (1994 to 2023).³⁷ An amount lower than the formula amount went into effect in the other 15 years. Similar to locality pay adjustments, the amount for the across-the-board pay adjustment can be set through the President’s alternative pay plan—based on a national emergency or

³⁵Designated by the President, the President’s Pay Agent is comprised of the Secretary of Labor and the Directors of OMB and OPM. See Exec. Order No. 12748, 56 Fed. Reg. 4521 (Feb. 1, 1991). In evaluating economic conditions, the President is to consider a range of economic measures, including (but not limited to) gross national product, the unemployment rate, the budget deficit, and the Consumer Price Index. 5 U.S.C. §§ 5304a, 5303(b)(2).

³⁶No locality pay increases were provided in 2011-2015 and 2021. See [GAO-22-104580](#) for more information on locality pay.

³⁷Under FEPCA, across-the-board pay adjustments are to be determined using the following formula: pay rates are to be increased by a percentage equal to the 12-month percentage increase in the Employment Cost Index for private sector workers, minus one-half of 1 percentage point. 5 U.S.C. § 5303.

serious economic conditions affecting the general welfare—or through legislation passed by Congress and signed by the President.³⁸

When provided, GS employees generally receive their annual pay adjustment on the first day of the first pay period beginning on or after January 1.³⁹ For 2023, the President authorized a pay adjustment of 4.1 percent for the across-the-board increase and 0.5 percent for locality pay.⁴⁰ However, GS pay adjustments are capped to generally not exceed the pay rate for level IV of the Executive Schedule, which covers political appointees and others.⁴¹

Occupations Covered by FWS and GS Systems Vary

The number of employees and types of occupations covered by the FWS and GS systems vary. Overall, OPM categorizes FWS employees by recognized trades or crafts, other skilled mechanical crafts, or manual labor occupations. OPM classifies GS employees under five occupational categories—professional, administrative, technical, clerical, and other kinds of work. See table 2 for additional details on how the occupations within each system are categorized.

³⁸In 1995, 1996, 1998, 2004, 2005, 2010-2019, and 2021, the President set a different across-the-board pay adjustment amount from the FEPCA formula through the alternative pay plan authority. In some of those years, Congress passed and the President signed a law either specifying the amount of the across-the-board pay adjustment (zero in some years when it froze pay or said no adjustment) or an overall percentage increase (for locality and across-the-board increases) in 1994, 1995, 1999-2006, 2008-2013, 2019, and 2020.

³⁹To determine the locality pay adjustment amounts to recommend to the President, the Pay Agent compares the annual GS base pay rates of federal workers in each area to the annual pay rates of nonfederal workers in the same areas for the same levels of work based on survey data from the Bureau of Labor Statistics. For 2023, the Pay Agent recommended a 4.1 percent across-the-board increase and a 17.30 percent average pay increase over 2021 locality rates based on pay comparisons using Bureau of Labor Statistics salary survey data. See [GAO-22-104580](#) for additional information on locality pay.

⁴⁰While outside of the scope of the report, for 2024 the President authorized a pay adjustment of 4.7 percent for the across-the-board increase and 0.5 percent for locality pay.

⁴¹The 2023 pay cap for GS employees was \$183,500.

Table 2: Occupational Coverage under the Federal Wage System and General Schedule Pay Systems

	Federal Wage System (FWS)	General Schedule (GS)
Occupational groups and families	<ul style="list-style-type: none"> Includes 36 distinct blue-collar occupational families. Examples of occupational families include electrical installation and maintenance and plumbing and pipefitting. For example, the electrical installation and maintenance occupational family includes occupations involved in the fabrication, installation, alteration, maintenance, repair, and testing of electrical systems, instruments, apparatuses, and equipment. 	<ul style="list-style-type: none"> Includes 23 distinct, broad white-collar occupational groups. Examples of occupational groups include engineering and architecture and mathematical sciences. For example, the engineering and architecture occupational group includes all classes of positions the duties of which are to advise on, administer, supervise, or perform professional, scientific, or technical work concerned with engineering or architectural projects, facilities, structures, systems, processes, equipment, devices, material, or methods.
Occupational series	<ul style="list-style-type: none"> Includes 210 occupational series within the 36 occupational families. For example, the electrical installation and maintenance occupational family covers five occupational series, such as electrician, high-voltage electrician, and aircraft electrician. 	<ul style="list-style-type: none"> Includes 411 occupational series within the 23 occupational groups. For example, the engineering and architectural occupational group covers 29 occupational series, such as civil, computer, electrical, environmental, mechanical, and nuclear engineering.
Types of occupations	<ul style="list-style-type: none"> Examples of the FWS occupations with the largest numbers of employees include custodian, maintenance mechanic, and aircraft mechanic. 	<ul style="list-style-type: none"> Examples of the GS occupations with the largest numbers of employees include miscellaneous administration and program and information technology management.

Source: GAO analysis of the Office of Personnel Management's *Handbook of Occupational Groups and Families* and OPM Enterprise Human Resources Integration data as of September 2022. | GAO-24-106657

FWS and GS Pay Ranges Dependent on Location, Grade, and Step

Pay ranges for FWS and GS employees vary depending on several factors. For FWS employees, their pay rates are affected by the types of wage schedules and pay plans, grades and steps, and GS localities in which their wage areas coincide. For GS employees, their pay rates are affected by their grades and steps, and base and locality amounts.

According to OPM data and guidance, there are at least 31 FWS pay plans that cover AF and NAF employees that are categorized as nonsupervisory, supervisory, and leader.⁴² As shown in table 3, the majority of FWS employees are under the AF nonsupervisory (WG), AF supervisory (WS), and NAF nonsupervisory and nonleader (NA) pay

⁴²For other FWS pay plans not listed in table 3, see Office of Personnel Management, *Appropriated Fund Operating Manual* (Washington, D.C.: Dec. 31, 1993; revised June 2020), and *Nonappropriated Fund Operating Manual* (Washington, D.C.: Dec. 31, 1993; revised June 2020).

plans. Within each pay plan, there are grades and steps. Under the nonsupervisory and leader pay plans, there are 15 grades and five steps within each grade. Under the supervisory pay plans, there are 19 grades and five steps within each grade. Each pay plan has a range of hourly pay rates. For example, the 2023 pay rates for AF employees under the WG pay plan in the Washington, D.C. wage area ranged from \$17/hour to \$46.95/hour for WG-1 step 1 (lowest grade and step) and WG-15 step 5 (highest grade and step), respectively.⁴³

Table 3: Federal Wage System (FWS) Employees by Top 10 Pay Plans

Pay plan code and description	Number of employees	Percent of total
WG: appropriated funds—nonsupervisory	126,365	65.7%
NA: nonappropriated funds—nonsupervisory and nonleader	21,486	11.2%
WS: appropriated funds—supervisory	20,893	10.9%
WL: appropriated funds—leader	12,221	6.3%
WT: appropriated funds—apprentices and shop trainees	2,705	1.4%
WB: wage positions not otherwise designated	1,693	0.9%
NL: nonappropriated funds—leader	1,448	0.7%
WY: appropriated funds—navigational lock and dam operation and maintenance positions in the U.S. Army Corps of Engineers—nonsupervisory	1,428	0.7%
WD: appropriated funds—production facilitating nonsupervisory	1,354	0.7%
NS: nonappropriated funds—supervisory	1,207	0.6%
All other FWS pay plans ^a	1,655	0.9%
Total	192,455	100%

Source: Office of Personnel Management (OPM) Enterprise Human Resources Integration data as of May 2023 and Department of Defense (DOD) data as of October 2023. | GAO-24-106657

Note: According to OPM, the pay plan codes are used for agency payroll purposes and are not consistently spelled out in OPM guidance and data standards.

^aThere are at least 21 other pay plans covering FWS employees, according to OPM and DOD data.

For the GS system, there are five pay plans that cover GS employees. As shown in table 4, the majority of GS employees (or about 98 percent) are under the GS pay plan, according to OPM data. The GS pay plan is divided into 15 pay grades, with 10 steps within each grade and are classified under five occupational categories. The GS base pay schedule is usually adjusted annually each January with an across-the-board pay

⁴³For all AF wage schedules, see <https://wageandsalary.dcpas.osd.mil/BWN/AFWageSchedules/> and <https://wageandsalary.dcpas.osd.mil/BWN/AFOverseasSchedules/>. For all NAF wage schedules, see <https://wageandsalary.dcpas.osd.mil/BWN/NAFWageSchedules/> and <https://wageandsalary.dcpas.osd.mil/BWN/NAFOverseasSchedules/>.

adjustment based on nationwide changes in the cost of wages and salaries of private sector workers. In addition, GS employees are also entitled to locality pay, which is a geographic-based percentage rate that reflects pay levels for nonfederal workers in certain geographic areas as determined by surveys conducted by the Bureau of Labor Statistics.

The 2023 base pay salary for GS employees ranged from \$20,999 to \$152,771 for GS-1 step 1 (lowest grade and step) and GS-15 step 10 (highest grade and step), respectively. Using Washington, D.C., as an example, GS total pay for 2023—including the across-the-board and locality pay adjustments—ranged from \$27,822 to \$183,500 for GS-1 step 1 and GS-15 step 10, respectively.⁴⁴

Table 4: General Schedule (GS) Employees by Pay Plans

Pay plan code and description	Number of employees	Percent of total
GS: employees covered by the Classification Act of 1949, as amended	1,478,304	97.8%
GL: employees who are law enforcement officers and receive special basic rates at grades 3 through 10 under section 503 of the Federal Employees Comparability Act of 1990	28,326	1.9%
GP: physicians and dentists who receive title 38 market pay instead of locality pay (formerly GS)	4,582	0.3%
GM: employees covered by the performance management and recognition system termination provisions	104	0%
GR: physicians and dentists that receive title 38 market pay instead of locality pay (formerly GM)	5	0%
Total	1,511,321	100%

Source: Office of Personnel Management Enterprise Human Resources Integration data as of May 2023. | GAO-24-106657

Note: According to OPM, the pay plan codes are used for agency payroll purposes and are not consistently spelled out in OPM guidance and data standards.

Federal Entities Are Considering Whether to Align FWS Wage Areas with GS Locality Pay Areas

Both pay systems rely on the geographic boundaries of the wage and locality pay areas to help determine the annual pay adjustment amounts for FWS and GS employees. However, the geographic boundaries for the FWS and GS are not the same because of how they are defined. Specifically, the FWS is comprised of 248 wage areas as of 2023 that are defined geographic areas which include concentrations of federal employees and private enterprise employment in the vicinity of federal installations, such as military bases, or Veterans Affairs Medical Centers.

⁴⁴For all 2023 GS locality pay tables, see <https://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/2023/general-schedule/>.

The GS pay system is comprised of 54 locality pay areas as of 2023 that cover basic locality pay areas as defined by OMB and measured by Census commuting data, and areas of application.⁴⁵

DOD officials stated that FWS employees were specifically excluded from the GS locality pay system when it was created in 1994 because they were already paid under a separate, preexisting prevailing rate system that reflected private sector practices for setting pay at different levels of work for trade, craft, and labor occupations. Further, OPM officials said that FPRAC had considered aligning FWS wage areas with GS locality pay areas when Congress implemented the GS locality pay system in 1994. However, at that time, FPRAC recommended by consensus that no changes be made to the existing geographic boundaries of the wage areas.

Since 2007, OPM, DOD, and FPRAC have considered proposals to use the geographic boundaries of GS locality pay areas to define the geographic boundaries of FWS wage areas and how that change could affect workers' pay adjustments.⁴⁶ In 2007, a FPRAC labor member proposed limiting all non-rest of U.S. (RUS) GS locality pay areas to no more than one FWS wage area to equalize the FWS and GS boundaries and prohibit having more than one wage area within a locality pay area.⁴⁷ While FPRAC has established working groups over the years to examine this issue and has also voted to recommend aligning FWS and GS geographic boundaries in 2010 and 2012, the OPM Director did not implement the recommendation. According to OPM officials, the OPM Director did not issue a statement indicating whether a decision had been made to accept or reject FPRAC's recommendations because federal pay systems were under a statutory pay freeze around that time.

⁴⁵A basic locality pay area includes a main metropolitan area, which is comprised of certain combined statistical areas or metropolitan statistical areas as defined by OMB. Areas of application are locations that are adjacent to a basic locality pay area and meet approved criteria for inclusion in the locality pay area. As of 2024, there are 58 locality pay areas. OPM published a final rule in November 2023 that established four new locality pay areas, which were effective December 2023 and applicable for pay purposes on the first day of the first applicable pay period beginning on or after January 1, 2024. 88 Fed. Reg. 78631 (Nov. 16, 2023).

⁴⁶FPRAC labor members requested that the committee consider the proposal on four separate occasions (2007, 2010, 2018, and 2022).

⁴⁷The GS RUS locality pay area applies to GS employees in portions of the United States and its territories and possessions that are not located within another locality pay area.

According to OPM officials, aligning FWS wage areas with GS locality pay areas may affect multiple FWS wage areas because of changes to the composition of existing FWS wage areas that may need to be made, such as:

- **Change in survey area.** Increasing the survey area for an updated wage area (by adding a county or counties) while decreasing the survey area for the existing wage area (by removing a county or counties) would require a greater degree of voluntary participation from private industrial establishments and an increase in resources to conduct the wage surveys for the updated wage area.
- **Abolishment of wage areas.** Removing a county or counties from existing wage areas could also affect the viability of such areas. That is, it must be determined whether existing wage areas could be maintained as is or if they must be abolished entirely, which would require moving the remaining counties to other wage areas.⁴⁸
- **Change in pay rates.** Moving FWS employees from one wage area to another may result in higher wages for some and lower wages for others than what they would have been paid if they had remained in their original wage area.

See textbox on one hypothetical scenario of how an alignment of an FWS wage area and a GS locality pay area would affect FWS employees who work at the Tobyhanna Army Depot based in Monroe County, Pennsylvania; a scenario that has been discussed among FPRAC members over the years.

⁴⁸According to OPM officials, at least eight FWS wage areas would need to be abolished if the current FPRAC working group were to agree in consensus to recommend that the full committee consider aligning FWS and GS boundaries.

Hypothetical Scenario for Aligning Federal Wage System (FWS) Wage Area and General Schedule (GS) Locality Pay Area for Monroe County, Pennsylvania

Starting in 2011, a Federal Prevailing Rate Advisory Committee (FPRAC) labor member requested that the committee consider moving Monroe County, Pennsylvania from the Scranton, Pennsylvania wage area to the New York, New York wage area on behalf of FWS employees working at the Tobyhanna Army Depot in response to the movement of GS employees in Monroe County from the rest of U.S. locality pay area to the New York-Newark locality pay area in 2004.

As of 2023, Monroe County, Pennsylvania is in the Scranton wage area that coincides with the New York-Newark locality pay area. The hourly regular wage rates for FWS appropriated fund employees within the WG pay plan at grade 2, step 1 in the Scranton, Pennsylvania wage area is \$18.85. On the other hand, the hourly regular wage rates for FWS employees within the WG pay plan at grade 2, step 1 in the New York, New York wage area is \$20.03.

If Monroe County were to move to the New York wage area to align with the New York GS locality pay area, the potential implications for the existing Scranton wage area may include:

- **Change in survey area.** Removing Monroe County could affect wage survey results for the updated Scranton wage area because it would eliminate private industrial establishments that are located and surveyed within Monroe County, which may result in lower wages for the remaining counties in the Scranton wage area.
- **Abolishment of wage area.** Moving Monroe County from the Scranton to New York wage area would not require the abolishment of the existing Scranton wage area at this time. However, if the Scranton wage area were to be abolished in the future because it was no longer viable, a total of 11 counties would need to be moved to other wage areas. Specifically, five of them would move to the New York wage area, three of them would move to the Harrisburg, Pennsylvania wage area, two of them would move to the Rochester, New York, wage area, and the remaining one would move to the Syracuse, New York wage area.
- **Change in pay rates.** Using 2023 as an example, Office of Personnel Management (OPM) officials calculated that FWS employees working at the Tobyhanna Army Depot could be paid on average from 3 to 20 percent more under the New York wage area. On average, the increase for FWS employees would be around 12 percent. Lower grades, such as FWS employees who work at warehouses, would not increase as much as journey level grades, such as those who work in skilled trades.

Source: GAO analysis of OPM and FPRAC documentation. | GAO-24-106657

FPRAC established a working group in July 2022 to conduct a formal review of the FWS, including aligning FWS and GS boundaries.⁴⁹ Since this issue was first introduced in 2007, the full committee has voted on recommended changes to address the issue on three separate occasions. All the FPRAC labor members have been in favor of aligning the GS locality pay area and FWS wage area boundaries to help reduce differences in pay adjustment amounts between GS and FWS employees who work alongside each other.

However, all FPRAC agency management members have been against this proposal because of unintended consequences that could occur. As noted in FPRAC agency management reports, some of the reasons include the estimated cost of implementation, unnecessarily increasing labor costs far above local prevailing market levels in some locations, and creating multitier pay systems for existing and new FWS employees if counties were to be moved from one wage area to another or if counties were to be abolished because of the realignment.

In addition, DOD officials told us that using GS locality pay areas to define FWS wage areas would combine various local pay markets resulting in undercompensated and overcompensated FWS employees.⁵⁰ By aligning FWS wage areas and GS locality pay areas, some FWS employees could receive lower wages if survey data for lower-cost areas were included in the payline rate for higher-cost area employees. While lower-cost area FWS employees may see higher wages, higher-cost area FWS employees would get a lower average pay because it includes lower-cost survey data.

DOD officials also reported that survey data weighs private establishments differently for each wage area. If FWS wage areas and

⁴⁹The FPRAC working group is also considering other matters, such as whether DOD should serve as the lead agency for collecting wage survey data, if there are too many or too few wage areas, if the criteria for establishing wage areas meet the statutory requirements for paying FWS employees according to local prevailing wage levels, and if the laws and regulations governing private industry coverage and establishment size meet the goal of determining prevailing wage levels, among others. In addition, the working group identified the annual pay adjustment cap as an obstacle and recommended that the full committee consider its proposal and advise the OPM Director accordingly.

⁵⁰According to DOD officials, wage data show differing blue-collar labor markets in some wage areas. Combining different labor markets into the same survey area would mix high- and low-pay areas. This could result in FWS employees in the high-cost areas to be undercompensated and those in the lower-cost areas to be overcompensated compared to their respective local markets.

GS locality pay areas were to be aligned, officials said there is no way to predict what the new weights and survey results would be until DOD goes through the annual wage survey process.

In December 2023, FPRAC recommended by majority vote that OPM revise the regulatory criteria used to define and maintain FWS wage area boundaries. According to OPM officials, this would ensure that there is only one FWS wage area within the boundaries of most non-RUS GS locality pay areas. To help facilitate the FPRAC discussion, OPM provided FPRAC members with the proposed changes to the regulatory criteria, potential new wage area definitions, and potential cost estimates by wage areas for these changes. As of February 2024, OPM is preparing this documentation for the OPM Director's decision to approve or reject.

Agencies Have Authority to Use Various Pay Flexibilities for Their FWS and GS Workforce

Agencies have authority to use pay flexibilities for FWS and GS employees—such as recruitment, relocation, and retention incentives—to help them recruit and retain their workforces.⁵¹ In addition, agencies may apply for other compensation flexibilities with OPM or OMB approval, such as special rates (see table 5).⁵² The pay flexibilities available to FWS employees generally overlap with those available to GS employees with some flexibilities unique to both systems.

⁵¹U.S.C. §§ 5753-5754, 5 C.F.R. pt. 575, subpt. A-C, and Office of Personnel Management, *Human Resources Flexibilities and Authorities in the Federal Government* (Washington, D.C.: August 2013).

⁵²OPM may establish higher rates of pay for an occupation or group of occupations in one or more areas or locations when it finds that the government's recruitment or retention efforts are, or would likely become, significantly handicapped without those higher rates. The minimum rate of a special rate range may exceed the maximum rate of the corresponding grade by as much as 30 percent but may not exceed the basic payable rate under level IV of the Executive Schedule. 5 U.S.C. § 5305(a)(1).

Table 5: Examples of Pay Flexibilities Available for Federal Wage System and General Schedule Workforce

Pay Flexibility and Definition	Available to the Federal Wage System (FWS)	Available to the General Schedule (GS)
Recruitment incentives: provided to a newly appointed employee if the agency has determined the position is likely to be difficult to fill.	Yes	Yes
Relocation incentives: provided to a current employee who must relocate to accept a position in a different geographic area if the agency determines the position is likely to be difficult to fill.	Yes	Yes
Retention incentives: provided to a current employee if the agency determines the unusually high or unique qualifications of the employee or a special need of the agency for the employee's services makes it essential to retain the employee and the employee would be likely to leave federal service in the absence of a retention incentive.	Yes	Yes
Highest previous rate: used to set the rate of basic pay of an employee by taking into account the rate of basic pay previously received by the individual while employed in another civilian federal position.	Yes	Yes
Superior qualifications and special needs pay-setting authority: used to set the rate of basic pay of a newly appointed employee at a rate above the minimum rate of the appropriate GS grade because the candidate has superior qualifications, or the agency has a special need for the candidate's services. Under FWS, special qualifications appointments allow an employing agency to set pay at a rate above step 1 of the appropriate grade level for candidates with highly specialized skills in an occupation.	Yes	Yes
Student loan repayment program: covers certain types of federally made, insured, or guaranteed student loans that are provided to attract job candidates or retain current employees.	Yes	Yes
Special rates: higher rates of pay for an occupation or group of occupations when recruitment or retention efforts are or would likely become significantly handicapped.	Yes	Yes
Special schedules: establishes an FWS schedule of rates for specific occupations that are critical to the mission of the federal activity within a geographic area and are used to ensure the recruitment or retention of qualified employees or to address unique agency missions or other unusual circumstances. According to Office of Personnel Management (OPM) guidance, rates under special schedules are broader in scope than what would normally be authorized under special rates.	Yes	N/A
Unrestricted rate authority: allows exceptions to a statutory limitation on FWS pay adjustments for an occupation or occupational specialization or grade in a wage area or part of a wage area if such exceptions are necessary to ensure the recruitment or retention of qualified employees.	Yes	N/A
Increased minimum hiring rate: used to establish any FWS-scheduled rate at step 2, 3, 4, or 5 as the minimum rate at which a new employee can be hired where the hiring rates prevailing for an occupation in private sector establishments in the wage area are higher than the step 1 rate and it is not possible to recruit qualified employees at the step 1 rate.	Yes	N/A
Critical position pay authority: applies to positions that require a very high level of expertise in a scientific, technical, professional, or administrative field and crucial to the accomplishment of an agency's mission.	N/A	Yes
Physicians comparability allowance: paid to certain eligible federal physicians who enter into service agreements with their agencies for which there are recruitment and retention problems.	N/A	Yes
Title 38 flexibilities for health care employees: certain Department of Veterans Affairs personnel authorities can be applied by OPM to employees in positions involving health care responsibilities.	N/A	Yes

Source: GAO analysis of statutes and OPM regulations and guidance on human resources flexibilities and authorities. | GAO-24-106657

According to OPM officials, special rates are the most used pay flexibility for FWS employees, and recruitment, retention, and relocation incentives are the most used pay flexibilities for GS employees. Prior to requesting use of special rates for their FWS employees, OPM officials stated that agencies can use pay flexibilities—such as recruitment, retention, and relocation incentives—to address their workforce challenges. OPM and DOD officials and FPRAC members stated that agencies have used special rates to address recruitment and retention issues for certain FWS occupations because it allows them to pay rates higher than the regular wage schedules.⁵³

With OPM approval, DOD may establish rates above the regular wage schedule rates for use within all or part of a wage area facing recruitment and retention difficulties for a designated occupation or occupational specialization and grade due to any of the following circumstances:

- rates of pay offered by private sector employers for an occupation or occupational specialization and grade are significantly higher than those paid by the federal government within the competitive labor market;
- the remoteness of the area or location involved; or
- any other circumstances that OPM considers appropriate.⁵⁴

According to DOD officials, agencies must determine that they have sufficient funds and send supporting documentation to DOD to support a special rate request for specific occupations, grades, installations, or locations.⁵⁵

⁵³According to OPM regulations, special rates cannot be less than the unrestricted rates for a wage area. 5 C.F.R. § 532.251(h).

⁵⁴See 5 C.F.R. § 532.251(a). According to OPM regulations, agencies using special rates must maintain current recruitment and retention data for all authorized special rates. Such data must be made available to DOD prior to the wage area regular schedule adjustment date for the purpose of determining whether there is a continuing need for special rates and the amount of special rate adjustment necessary to recruit or retain well-qualified employees. 5 C.F.R. § 532.251(j).

⁵⁵Once special rates are approved by OPM, according to DOD officials, it is difficult to remove them if hard-to-fill positions remain. Special rates may be canceled if there are no workers left in the wage area or if the work function has changed.

DOD officials reported that there are 91 special rate schedules for the FWS workforce as of October 2023.⁵⁶ Specifically, DOD has special rate schedules for 14 specialized industries within DOD, such as aircraft maintenance and support and maritime maintenance and support, covering 50 wage areas.⁵⁷ For example, DOD has a special rate schedule for Edwards Air Force Base that covers its wage grade employees who conduct aircraft maintenance.

In addition, DOD established 318 special rates in January 2022 to implement a minimum pay rate of \$15 per hour for appropriated fund (AF) employees and nonappropriated fund (NAF) employees. This was in response to OPM's guidance implementing the President's executive order directing OPM to provide a report with recommendations to promote a \$15 per hour minimum pay rate for all federal employees, including FWS employees.⁵⁸ According to DOD officials, this action inadvertently led to pay inversion in some wage areas where lower-grade FWS employees were paid at rates higher than higher-grade FWS employees. As a result, according to DOD's analysis of its wage data, the \$15 minimum wage special rate further exacerbated the difference between FWS and local prevailing rates. To address this issue, OPM waived the pay adjustment cap so that agencies could address the pay inversion issue by paying unrestricted rates.⁵⁹ According to DOD officials, all cases of inversion have been addressed as of October 2023. They also said

⁵⁶According to DOD officials, 72 of them are for appropriated fund employees and the remaining 19 are for nonappropriated fund employees.

⁵⁷Other examples of specialized industries include air conditioning equipment mechanic, electrical lineman, high-voltage electrician, surface maintenance mechanic, and wastewater treatment. Also see <https://wageandsalary.dcpas.osd.mil/BWN/FWSSpecialSchedules>.

⁵⁸In January 2021, the President issued Executive Order 14003 directing OPM to provide a report with recommendations to promote a \$15 per hour minimum pay rate for all federal employees. 86 Fed. Reg. 7231 (Jan. 27, 2021). In response, OPM developed a roadmap for how federal executive branch agencies could achieve a \$15 per hour minimum pay rate for employees stationed in the U.S. (including its territories and possessions) by maximizing the use of flexibilities, such as the special salary and special wage rates for GS and FWS employees. In January 2022, OPM issued a memorandum approving the FWS \$15 minimum wage special rate, which took effect on the first day of the first applicable pay period on or after January 30, 2022. Office of Personnel Management, *Achieving a \$15 Per Hour Minimum Pay Rate for Federal Employees*, CPM 2022-02 (Washington, D.C.: Jan. 21, 2022).

⁵⁹Unrestricted rates are uncapped and may be authorized for use within all or part of a wage area for a designated occupation or occupational specialization and grade when OPM determines such exceptions are necessary to ensure the recruitment or retention of qualified employees. 5 C.F.R. § 532.801.

that any future inversion will be addressed as part of DOD's annual wage schedule updates.

According to OPM and DOD officials, unrestricted rate authority is also used by DOD to ensure the recruitment or retention of FWS employees for an occupation or group of occupations in a wage area or part of a wage area with OPM approval. Specifically, OPM has the authority to approve unrestricted (or uncapped) rates by issuing waivers of the pay adjustment limitation (or pay adjustment cap) when OPM determines such exceptions are necessary to ensure the recruitment or retention of qualified employees. In November 2020, OPM streamlined this process at DOD's request by approving an annual authorization for necessary exceptions to the FY 2021 pay adjustment limitations for previously established FWS special rates, which has been renewed annually including for FY 2023.

DOD and VA jointly requested approval from OPM to waive the annual pay adjustment limitation to address pay inversions for certain regular wage schedules because of the \$15 minimum special rate, which was approved by OPM in October 2022. According to OPM's approval letter, the waiver is applied to all grade levels in a regular wage area where any part of a wage schedule in the applicable area has experienced a pay inversion with a special rate schedule.

OPM and DOD Play Critical Roles in Administering the Federal Wage System

The Prevailing Rate Systems Act of 1972, as amended, and OPM regulations outline a process for administering the FWS, including how (1) wage areas are established and combined, (2) wage surveys are conducted, and (3) wage schedules are set.⁶⁰ DOD and OPM officials and FPRAC members highlighted challenges that they face with the administration of the FWS.

OPM Establishes and Combines FWS Wage Areas Based on Regulatory Criteria

With input from FPRAC, OPM is responsible for establishing and combining wage areas for FWS employees. According to OPM guidance, a wage area is a defined geographic area within which concentrations of federal wage employees in combination with concentrations of private enterprise employment are found and which is treated as a single unit for

⁶⁰Pub. L. No. 92-392 (1972) (codified, as amended at 5 U.S.C. §§ 5341-5349); 5 C.F.R. pt. 532.

purposes of fixing and applying federal wage rates.⁶¹ A wage area consists of two parts:

- **Survey area.** OPM defines survey areas for AF and NAF wage areas as part of the wage area where the private enterprise establishments included in the wage survey are located.⁶² The survey area for an AF wage area is the geographic area in which the establishments included in the locality wage survey are located.⁶³ The survey area for a NAF wage area is the geographic area consisting of one or more counties where there is the capability in NAF employment to conduct a wage survey and where there is sufficient private employment in wholesale, retail, service, and recreational establishments to provide adequate survey data.
- **Area of application.** The area of application for an AF wage area is the geographic area, including the survey area, and additional areas, in which wage schedules derived from a wage survey are uniformly applied to covered wage employees of all agencies.⁶⁴ The area of application for a NAF wage area is the geographic area consisting of one or more counties, including a survey area, plus those counties which do not meet the requirements for treatment as a survey area.⁶⁵

When FPRAC receives a request to establish or combine an FWS wage area, OPM staff will provide suggestions to the committee members using criteria outlined in OPM's regulations, as shown in table 6. FPRAC will then vote whether to accept or reject OPM's suggestions through majority vote. DOD officials stated that while OPM can suggest combining wage areas to FPRAC for a vote, it is a unique and rare occurrence that is not

⁶¹Office of Personnel Management, *Appropriated Fund Operating Manual, Appendix D 2020 Update* (Washington, D.C.: Dec. 31, 1993; revised June 2020), and *Nonappropriated Fund Operating Manual, Appendix D 2020 Update* (Washington, D.C.: Dec. 31, 1993; revised June 2020).

⁶²5 C.F.R. § 532.201.

⁶³A survey area is composed of the counties, parishes, cities, or townships in which survey data are collected. Except in very unusual circumstances, an AF wage area that includes a metropolitan statistical area (MSA) will have the MSA as the survey area or part of the survey area. The MSA shall not be subdivided for the purpose of defining a wage area. 5 C.F.R. § 532.211.

⁶⁴It generally includes at least some counties contiguous to the survey area and, where surveyable areas are widely separate, may include many counties.

⁶⁵According to OPM's *Nonappropriated Fund Operating Manual*, the wage schedules established from data obtained in a survey area will be uniformly applied to cover NAF wage employees in the area of application.

part of the standard administration of the process. If accepted, OPM officials said that FPRAC will make a recommendation to the OPM Director for consideration and approval. Officials stated that FPRAC's recommendation process for establishing and combining the wage areas can take up to a year but is usually shorter. OPM implements FPRAC's recommendations regarding changes to wage areas administratively through amendments to OPM's regulations.

Table 6: Criteria for Establishing and Combining Appropriated Fund and Nonappropriated Fund Wage Areas

	Criteria for establishing areas	Criteria for combining areas
Appropriated fund wage areas	<ul style="list-style-type: none"> • Consist of one or more survey areas along with nonsurvey areas, if any; • Recognized economic community, such as a metropolitan statistical area, or a political unit, such as a county (wherever possible); • Minimum of 100 wage employees of one agency subject to the regular wage schedule and there is local capacity to conduct the wage survey; • Minimum number of establishments and employees within a reasonable commuting distance of the concentration of federal employment.^a 	<ul style="list-style-type: none"> • Distance; • Transportation facilities; • Geographic features; • Commuting patterns; and • Similarities of the counties in overall population, private sector employment patterns, and the kinds and sizes of private industrial establishments.
Nonappropriated fund (NAF) wage areas	<ul style="list-style-type: none"> • Consist of one or more survey areas and nonsurvey areas, if any, having NAF employees; • Minimum of 26 NAF wage employees in the survey area and local capacity to conduct the wage survey; and • Minimum of 1,800 private sector employees in establishments within survey specifications in the survey area. 	<ul style="list-style-type: none"> • Proximity of largest activity in each county; • Transportation facilities and commuting patterns; and • Similarities of the counties in overall population, private sector employment in major industry categories, and the kinds and sizes of private industrial establishments.

Source: GAO analysis of 5 C.F.R. §§ 532.211 and 532.219. | GAO-24-106657

Note: Employees in AF wage areas are generally funded from the Treasury and employees in NAF areas are generally funded by facility-generated dollars.

^aSpecifically, there needs to be, within a reasonable commuting distance of the concentration of federal employment: (1) a minimum of either 20 establishments within survey specifications having at least 50 employees each, or 10 establishments having at least 50 employees each, with a combined total of 1,500 employees; and (2) the total private enterprise employment in the industries surveyed in the survey area is at least twice the federal wage employment in the survey area. See 5 C.F.R. § 532.211(c)(2).

According to OPM officials, changes in wage area definitions have generally been minor since Congress created the FWS. Based on FPRAC recommendations, OPM has primarily made wage area changes because of DOD base closures and realignments or updates to OMB-

defined metropolitan statistical areas (MSA).⁶⁶ OPM last revised the regulatory criteria for establishing wage areas in November 2016 when it issued final regulations to add new criteria on how to define a single, contiguous joint base that overlapped between two separate wage areas.⁶⁷

OPM officials told us that they periodically review OMB bulletins to determine whether new or updated MSA definitions would affect existing wage area boundaries. That is, if a county is redefined to another MSA as part of the OMB update, this may result in the MSA splitting into two separate wage areas, which is not permitted under OPM regulations except in very unusual circumstances.⁶⁸

For example, OMB updated the definitions of MSA boundaries in September 2018 that prompted OPM to propose changes to FPRAC for affected counties in three wage areas—including Hagerstown, Maryland; Cleveland, Ohio; and Jackson, Mississippi.⁶⁹ Using the updated OMB MSA definitions, FPRAC recommended by consensus to redefine the affected counties by removing them from their existing wage areas and adding them to the Washington, D.C.; Detroit, Michigan; and Meridian, Mississippi wage areas, respectively.

The Federal Salary Council—comprised of pay and labor relations experts and organizations representing GS employees—recommended establishing four new locality pay areas beginning in January 2024 that would affect four wage areas—including Fresno, California; Reno,

⁶⁶OMB defines MSAs and maintains and periodically updates the definitions of MSA boundaries. Office of Management and Budget Bulletin No. 23-01, *Revised Delineations of Metropolitan Statistical Areas, Micropolitan Statistical Areas, and Combined Statistical Areas, and Guidance on Uses of the Delineations of These Areas* (Washington, D.C.: July 21, 2023). MSAs are composed of counties and are defined based on a central urbanized area. When the boundaries of wage areas were first established in the 1960s, there were fewer MSAs and the boundaries of the existing MSAs were much smaller. Most MSAs were contained within the boundaries of a wage area. However, with each OMB update, MSAs have expanded extending beyond the wage area boundaries in some cases.

⁶⁷81 Fed. Reg. 86249 (Nov. 30, 2016).

⁶⁸5 C.F.R. § 532.211.

⁶⁹Office of Management and Budget Bulletin No. 18-04, *Revised Delineations of Metropolitan Statistical Areas, Micropolitan Statistical Areas, and Combined Statistical Areas, and Guidance on Uses of the Delineations of These Areas* (Washington, D.C.: Sept. 14, 2018) and Office of Personnel Management, *Federal Prevailing Rate Advisory Committee: Annual Summary of Recommendations and Discussions, Calendar Year 2019* (Washington, D.C.: February 2020).

Nevada; Rochester, New York; and Spokane, Washington.⁷⁰ OPM published a final rule in November 2023 that established these four new locality pay areas, which were effective December 2023 and applicable for pay purposes on the first day of the first applicable pay period beginning on or after January 1, 2024.⁷¹ According to OPM officials, changes to the GS locality pay area definitions will prompt OPM to redefine affected counties to other wage areas.⁷²

From 2019 to 2023, OPM has published seven final rules to redefine FWS wage areas. Three of them redefined AF wage areas while the remaining four added counties to several NAF wage areas that were previously undefined. Moreover, there have been a total of nine AF and 27 NAF wage areas that have been abolished to date since the establishment of the FWS in 1972. The last time two wage areas were abolished was in 2015. According to OPM, reasons for abolishing the wage areas include closing of host activity, inadequate wage data, decreased federal wage employment, and low-yield survey data.

DOD Conducts Wage Surveys and Issues Wage Schedules for All Wage Areas

DOD is the lead agency responsible for conducting wage surveys and setting pay rates for the wage schedules for the 248 wage areas with oversight from the DOD Wage Committee (DODWC), which reviews wage survey results and recommends a proposed wage schedule to the lead agency.⁷³ To determine the prevailing wage rates for comparable FWS occupations, DOD conducts annual surveys with assistance from

⁷⁰Federal Salary Council, *Level of Comparability Payments for January 2024 and Other Matters Pertaining to the Locality Pay Program* (Washington, D.C.: Feb. 4, 2023).

⁷¹88 Fed. Reg. 78631 (Nov. 16, 2023).

⁷²In October 2022, the Federal Salary Council also recommended adding Clallam and Jefferson Counties as an area of application to the Seattle-Tacoma, Washington locality pay area. In October 2023, the President's Pay Agent tentatively approved the council's recommendation pending appropriate OPM rulemaking, which may not be effective until January 2025. Office of Personnel Management, *Report on Locality-Based Comparability Payments for the General Schedule: Annual Report of the President's Pay Agent for Locality Pay in 2024* (Washington, D.C.: Oct. 3, 2023).

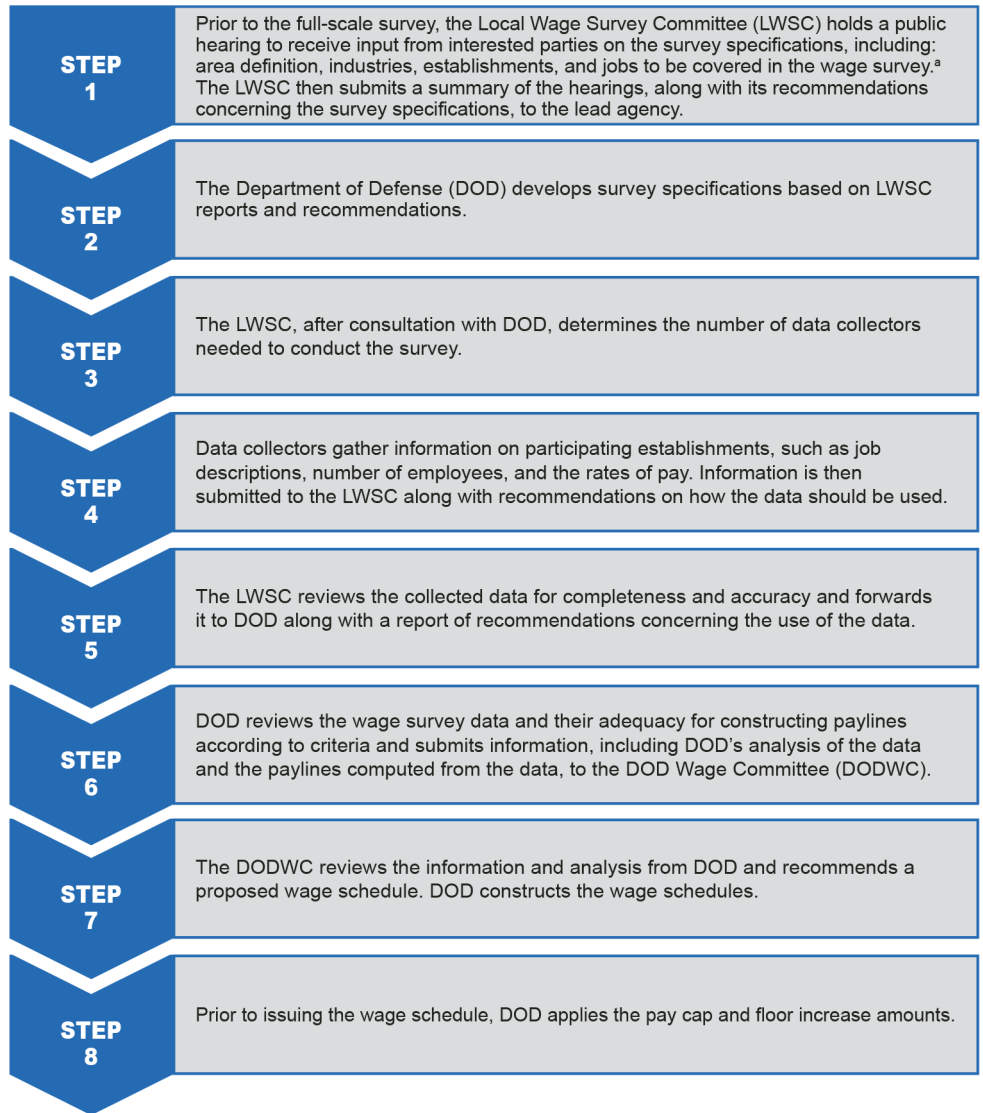
⁷³DOD is the lead agency for conducting regular and special wage surveys and setting regular and most special wage schedules. For purposes of this report, we will primarily focus on the regular wage survey and regular wage schedule processes because special schedules focus on specific occupations within a geographic area where there may be recruitment and retention issues, unique agency missions, or other unusual circumstances. However, special wage schedules use the same methodologies as the regular wage survey and regular wage schedule processes. As we reported earlier, DODWC includes five members representing agency and labor organizations that are responsible for reviewing wage survey data and Local Wage Survey Committee reports and provide recommendations on the wage schedules.

Local Wage Survey Committees (LWSC), which oversee the collection of data from private sector establishments located in the wage areas. Using this information, DOD determines the unrestricted payline for DODWC review and approval before constructing and issuing the final wage schedules.⁷⁴

DOD conducts two types of regular wage surveys—full-scale and wage change—on a 2-year cycle at annual intervals and on a rolling basis throughout the year. Full-scale surveys are conducted in the first year of the 2-year cycle in which data are collected from a sample of voluntary, private sector establishments in the wage area. See figure 6 for an overview of the process. Wage change surveys are conducted every other year to update the wage data from the same private sector establishments represented in the full-scale surveys.

⁷⁴The unrestricted payline is the weighted average calculation of the survey data and is used to determine pay rates for wage schedules. See 5 C.F.R. § 532.241. According to law, each increase in rates of basic pay is effective not later than the first day of the first pay period which begins on or after the 45th day following the date the wage survey is ordered to be made. 5 U.S.C. § 5344.

Figure 6: Federal Wage System Full-Scale Wage Survey Process



Source: GAO analysis of 5 C.F.R. §§ 532.233-532.245 and Pub. L. No. 117-328, § 737(a)-(b), 136 Stat. 4459, 4712-13 (2022). | GAO-24-106657

^aAccording to Department of Defense officials, the Local Wage Survey Committee holds a public hearing about 4 to 6 months prior to the full-scale survey.

According to OPM regulations, all regular wage surveys must include the following survey coverage specifications: (1) survey area, (2) industries, (3) establishments (and their standard minimum size), and (4) survey jobs.⁷⁵

- **Survey area.** Defined by OPM, a survey area is the part of a wage area where private establishments included in the wage survey are located.⁷⁶
- **Industries.** Published by OMB, industries are defined in terms of the North American Industry Classification System (NAICS) and are different for AF and NAF positions.⁷⁷ For example, regular AF surveys include industries such as manufacturing, wholesale trade, selected transportation, and utilities, while regular NAF surveys include industries such as wholesale trade, retail trade, hotels, restaurants, and recreational establishments.
- **Establishments.** All establishments generally must have a minimum of at least 20 and 50 employees in the prescribed industries within a survey area for NAF and AF surveys, respectively.⁷⁸ DOD uses statistical sampling to generate a list of establishments to be surveyed in a wage area based on survey specifications.
- **Survey jobs.** Each wage survey must contain wage rate data that are collected for a prescribed list of jobs, which cover a wide range of occupations common in skill and responsibility in both private industry and the government. For the AF, there are 21 jobs that are required to be surveyed and 34 optional jobs that can be added when relevant to

⁷⁵ 5 C.F.R. § 532.233.

⁷⁶ 5 C.F.R. § 532.201.

⁷⁷ NAICS is a classification of business establishments by type of economic activity and is used by government and businesses in Canada, Mexico, and the U.S. It is updated every 5 years by OMB. Examples include: (1) utilities; (2) air, rail, and truck transportation; (3) warehousing and storage; (4) waste collection; and (5) merchant wholesalers for durable and nondurable goods. In addition, other industries may be added to the wage surveys if they have significant employment similar to local FWS employment. For the list of NAICS codes that are included in all wage surveys for AF and NAF positions, see 5 C.F.R. § 532.213 and 5 C.F.R. § 532.221.

⁷⁸ According to DOD officials, OPM may authorize a minimum size of 20 employees for AF surveys. In addition, establishments in NAICS codes 4471, 4542, 71391, and 71395 must be included in the NAF survey universe if they have eight or more employees. 5 C.F.R. § 532.223(a). These NAICS codes cover companies with employees for vending machine operators, gasoline service stations, bowling centers, and membership sports and recreation clubs.

a given wage area.⁷⁹ For the NAF, there are 21 required jobs and 11 optional jobs.⁸⁰ OPM also developed a list of survey job descriptions that describe the type of work performed for the required and optional jobs.⁸¹ According to DOD officials, these descriptions serve as benchmarks for both federal and private sector jobs and are used to find comparable matches between the two for wage surveys.

After the public hearing, the LWSCs prepare a report with their recommendations related to the survey specifications for their wage areas.⁸² According to OPM regulations, DOD will use LWSC recommendations to draw a statistical survey sample for each wage area and notify LWSCs about the selected establishments that the LWSCs will use for the full-scale wage surveys.⁸³

Before conducting the full-scale wage surveys, LWSCs and DOD determine the number of data collectors needed for their wage surveys and provide training.⁸⁴ According to OPM guidance, data collectors must meet certain requirements, including being well versed on a wide range of wage occupations, being well acquainted with wage administration

⁷⁹Examples of surveyed jobs required in AF regular wage surveys include automotive mechanic, carpenter, electrician, machinist, pipefitter, and welder. 5 C.F.R. § 532.217.

⁸⁰Examples of surveyed jobs required in NAF regular wage surveys include carpenter, cook, food service worker, janitor, painter, and truck driver. 5 C.F.R. § 532.225.

⁸¹Office of Personnel Management, *Appropriated Fund Operating Manual, Appendix E* (Washington, D.C.: Dec. 31, 1993; revised June 2020), and *Nonappropriated Fund Operating Manual, Appendix E* (Washington, D.C.: Dec. 31, 1993; revised June 2020).

⁸²The complete specifications include: (1) definition of the survey area; (2) list of industries; (3) list of survey jobs; (4) standard minimum size of establishments; and (5) list of establishments to be included with certainty in the sample. See 5 C.F.R. § 532.233(c); Office of Personnel Management, *Appropriated Fund Operating Manual, Subchapter S5* (Washington, D.C.: Dec. 31, 1993; revised June 2020); and *Nonappropriated Fund Operating Manual, Subchapter S5* (Washington, D.C.: Dec. 31, 1993; revised June 2020). LWSCs plan and conduct wage surveys in their designated wage areas and support the collection of survey data that DOD uses to construct and issue the wage schedules.

⁸³5 C.F.R. §§ 532.231, 532.233.

⁸⁴Upon receiving information from DOD about the estimated number of establishments, the LWSC and DOD will determine the number of data collectors necessary to conduct the survey. See 5 C.F.R. § 532.233(e)(1). For AF wage surveys, the team of data collectors consists of one local FWS employee recommended by the LWSC member representing the qualifying labor organization and one local federal employee recommended by federal agencies. See 5 C.F.R. § 532.233(e)(2). For NAF wage surveys, the team of data collectors consists of one local NAF employee recommended by the LWSC member representing the qualifying labor organization and one NAF employee recommended by NAF activities. See 5 C.F.R. § 532.233(e)(3).

practices, being able to approach the collection of wage data objectively, and avoiding any appearance of prejudice.⁸⁵ DOD officials told us that they have used professional data collectors for the wage survey process on the management side, in response to recommendations we made in June 1975 to develop a permanent body of carefully selected and thoroughly trained full-time collectors to represent management in the data collection process.⁸⁶

Prior to the COVID-19 pandemic, data collectors were required to conduct full-scale wage surveys in-person by visiting private establishments to gather data. However, because of the COVID-19 pandemic, DOD implemented a travel ban in March 2020 that stopped its staff's ability to conduct in-person data collection. As a result, DOD officials said they were unable to conduct full-scale and wage change surveys for about a year. Therefore, DOD applied the pay adjustment floor amounts to 2 years of wage schedules for 70 AF and 64 NAF wage surveys in place of the data collectors collecting new survey data for those wage schedules. In March 2021, based on a FPRAC recommendation, OPM issued an interim final rule (which OPM finalized in October 2021) to allow for, with the unanimous consent of LWSCs, additional options to collect wage data during full-scale and wage change surveys either by an in-person visit, telephone, mail, or electronic means.⁸⁷

According to OPM regulations, LWSCs review all establishment information and survey job data collected by the data collectors for completeness and accuracy and prepare reports that include all wage data and recommendations to DOD for further analysis upon completion of the full-scale wage surveys.⁸⁸ DOD reviews all material and wage survey data forwarded by LWSCs to (1) assure that the surveys were conducted within the prescribed procedures and specifications, (2) consider matters included in the LWSC reports and recommendations, (3) exclude unusable data, (4) resolve questionable job matching and wage rate data, and (5) verify all computations reported on wage data collection forms. DOD then determines the adequacy of wage survey data to

⁸⁵Office of Personnel Management, *Appropriated Fund Operating Manual, Subchapter S5* (Washington, D.C.: Dec. 31, 1993; revised June 2020), and *Nonappropriated Fund Operating Manual, Subchapter S5* (Washington, D.C.: Dec. 31, 1993; revised June 2020).

⁸⁶GAO, *Improving the Pay Determination Process for Federal Blue-Collar Employees*, [GAO-FPCD-75-122](#) (Washington, D.C.: June 3, 1975).

⁸⁷86 Fed. Reg. 11857 (Mar. 1, 2021); 86 Fed. Reg. 57355 (Oct. 15, 2021).

⁸⁸5 C.F.R. § 532.237(a).

compute the payline to construct the wage schedules, which are forwarded and presented to DODWC for its review and recommendation.⁸⁹

Wage change surveys are conducted in alternate years for every wage area. The purpose of the wage change survey is to update the findings of the full-scale wage survey from the year before by using the same employers, occupations, and weights of establishments used in computing the wage line. Such information may be collected by telephone, mail, electronic means, or personal visit. The same LWSC members or data collectors who conducted the preceding full-scale wage survey for the wage area support the wage change survey. Similar to the full-scale wage survey, DOD uses the wage change survey data to compute the payline to construct the wage schedules that are forwarded and presented to DODWC for its review and approval.

According to DOD officials, DODWC members meet every 2 weeks to discuss wage survey specifications and results from the full-scale and wage change surveys to approve the paylines for the unrestricted wage schedules. DOD officials said that the unrestricted wage schedule refers to the wage schedule based on survey data results without pay adjustment limitations applied.⁹⁰ Once approved by DODWC, DOD officials stated that DOD staff will first create the unrestricted wage schedules followed by the final restricted nonsupervisory, leader, and supervisory wage schedules for each wage area using either the unrestricted payline, pay adjustment cap, or pay adjustment floor rates.

As needed, and subject to the approval of OPM, DOD may apply special rates to the regular wage schedule and issue special rate schedules for an occupation or group of occupations within a wage area. DOD updated regular wage schedules affected by the \$15 minimum wage special rate. To do so, DOD first establishes the minimum special rate as a baseline and then applies the pay adjustment floor rate to calculate the minimum percentage increase a wage area can receive. Using the current year survey rate of pay measured for the wage area, DOD then compares the unrestricted payline rate to the pay adjustment floor rate and uses the

⁸⁹DOD computes the paylines by using the weighted average rates of the wage survey data for each survey job. 5 C.F.R. § 532.241.

⁹⁰According to DOD officials, only the DODWC management members—Army and Navy—vote on the unrestricted payline for full-scale survey results. However, the DODWC labor members can reject and object if they do not agree. For wage change surveys and survey specifications, all DODWC members vote via consensus.

greater of the two rates for the final wage schedule. According to DOD officials, both the regular and \$15 minimum special wage schedules are published for affected wage areas even though in some areas the regular wage schedules are not being used or are partially used.

OPM and DOD officials and FPRAC members identified several challenges to the wage survey and wage schedule processes, such as the effect of the pay adjustment cap and floor on wage surveys, effect of resource constraints on data collection efforts, and effect of private sector wage data collected for wage surveys. The FPRAC working group plans to study some of these challenges as part of its review of the FWS and make recommendations to OPM, as appropriate.

- **Effect of the pay adjustment cap and floor on wage surveys.** OPM officials stated that because rates are subject to the pay adjustment cap and floor, primarily under annual appropriations laws, the annual wage surveys to measure and apply prevailing wage rates to FWS positions are only useful as a way of measuring wage levels. Similarly, DOD officials said that the data collected from the wage surveys may have no immediate or direct effect on FWS wages because of the cap on FWS pay adjustments. That is, even if the wage survey data indicated that some wage grade employees were underpaid relative to their local prevailing rate, the pay adjustment cap prevents them from being compensated in accordance with their local prevailing rate.
- **Effect of resource constraints on data collection efforts.** DOD officials and FPRAC members also noted that resource constraints have affected agency participation at the local levels to support LWSC efforts in collecting survey data. DOD officials also stated that there may be more work depending on the number of establishments to be surveyed in a wage area.
- **Effect of private sector wage data collected for wage surveys.** Some FPRAC members had concerns regarding the lack of private sector wage data, which may include federal contractors, used in the wage survey process because participation is voluntary. According to DOD officials, this could result in lower or higher wage rates because lower- or higher-paid companies and federal contractors within the area are not required to and may not participate in the wage survey. DOD officials stated that they only survey companies that include industries covered under NAICS as required by OPM regulations. They also said that companies that have federal contracts are excluded unless they have industries that are covered under NAICS

and volunteer to provide information as part of the wage survey process.

- **Inadequacy of survey job descriptions.** OPM officials and FPRAC members highlighted concerns about the adequacy of survey job descriptions because they are not always an exact match between the work that is performed in federal and private sector positions. For example, OPM officials stated that it is difficult to find comparable private sector work for electrical work conducted at Tobyhanna Army Depot in the local wage area.⁹¹ DOD officials also mentioned that some jobs have changed over time as they become automated. For example, machine tool jobs are very technical and require manual input for tolerances by workers. However, automation no longer requires such workers to manually tweak tolerances. In addition, the range of tasks completed in certain occupations may also be hard to classify. For example, an FWS painter working on a Navy ship may work with different materials and require security clearance to access certain facilities compared to an FWS painter who works on buildings at a naval base. The skill set required may vary depending on the work that is done, which also makes it difficult to identify comparable occupations for wage surveys.

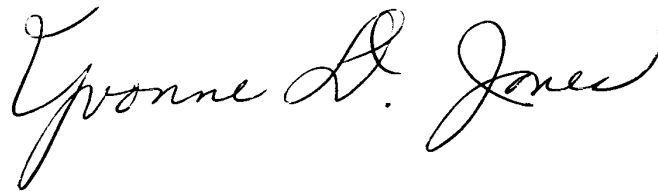
Agency Comments

We provided a draft of this report to the Secretary of Defense and the Director of OPM for their review and comment. DOD and OPM provided technical comments, which we incorporated as appropriate.

⁹¹According to DOD officials, the “Monroney Amendment,” which is found at 5 U.S.C. § 5343(d)(2), allows DOD to find a comparable industry anywhere else in the country. The next closest area with specialized data could be far away from the survey area (e.g., using samples from Biloxi, Mississippi for Seattle or Hawaii). However, DOD has not been able to find a match for the scope of work done at Tobyhanna. DOD officials also believe that data should be limited to surrounding areas.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Defense, the Director of OPM, and other interested parties. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-6806 or jonesy@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix II.

A handwritten signature in black ink that reads "Yvonne D. Jones". The signature is written in a cursive style with a large, stylized initial "Y".

Yvonne D. Jones
Director, Strategic Issues

Appendix I: Objectives, Scope, and Methodology

This report describes (1) characteristics of the Federal Wage System (FWS) and General Schedule (GS) pay systems and how they compare, and (2) the process for administering the FWS. For both objectives, we are describing the processes and systems for the FWS and GS as of 2023.

To describe the characteristics of the FWS and GS pay systems and how they compare, we first identified the required characteristics outlined in the Joint Explanatory Statement for the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023. The Joint Explanatory Statement included five characteristics to use to compare the FWS and GS pay systems, including (1) occupational coverage, (2) geographic coverage, (3) pay ranges, (4) pay adjustments, and (5) pay increase (or adjustment) limits. In conducting our work, we identified underlying principles and availability of government-wide pay flexibilities as two additional characteristics to compare both pay systems based on our prior work on compensation.¹ We then confirmed with the Office of Personnel Management (OPM) that these were the characteristics to compare both systems.

To further describe the characteristics of the FWS and GS pay systems and how they compare, we reviewed legislation on the pay systems and an executive order on protecting the federal workforce. We reviewed OPM regulations; OPM memorandums, such as annual GS pay adjustments for 2017 through 2023, annual prevailing rate pay adjustments for fiscal years 2018 through 2023, and the \$15 minimum wage special rate; and OPM guidance, such as appropriated fund (AF) and nonappropriated fund (NAF) operating manuals. We reviewed OPM's handbook on occupational groups and families, and human resources flexibilities and authorities and OPM and Department of Defense (DOD) documentation. We reviewed Federal Salary Council and President's Pay Agent reports for 2024 (published in 2023); annual Federal Prevailing Rate Advisory Committee (FPRAC) reports for 2008 through 2020 and 2022; monthly FPRAC public meeting minutes for 2017 through 2023 that discuss various aspects of the FWS, including FPRAC discussion of whether certain wage areas should be re-defined or abolished; and our prior work on the GS locality pay program.

¹GAO, *Human Capital: Administration and Implementation of the General Schedule Locality Pay Program*, [GAO-22-104580](#) (Washington, D.C.: Nov. 30, 2021); and *Federal Pay: Opportunities Exist to Enhance Strategic Use of Special Payments*, [GAO-18-91](#) (Washington, D.C.: Dec. 7, 2017).

We used OPM-reported data from its Enterprise Human Resources Integration system as of May 2023 (the most current data at the time of our review) to report the total number of GS employees and the number of GS employees within the GS-related pay plans, as well as the total number of FWS AF employees and the number of FWS employees by AF pay plans for contextual purposes. We also used DOD reported data for the total number of FWS NAF employees and the number of employees by NAF pay plans for contextual purposes. We additionally used DOD data because, according to OPM officials, standard OPM personnel requirements, such as a standard form 50 for processing personnel actions, do not apply for the NAF workforce.

In addition, we used 2023 data reported by DOD that compares average wage schedule rates to prevailing (or market) wage rates for nonsupervisory employees in AF and NAF wage areas to highlight the effect of other factors on FWS wages, including the annual pay adjustment process and the \$15 minimum special rate.² In some instances, there are multiple wage schedules for a single wage area. For illustration purposes, we used the wage area as the overall unit of analysis. For all the data used, we asked OPM and DOD officials questions about the source of the data, how they were collected, and how they were updated. We followed up with agencies in cases where we had questions about the data they had reported and resolved the issues. We found the data to be reliable for the purpose of providing information regarding the FWS and GS workforce and pay systems.

We interviewed relevant OPM and DOD officials and FPRAC members on the committee to understand how characteristics of the FWS and GS pay systems compare. We received the list of FPRAC members and their contact information as of February 2023 from OPM.

To describe the process for administering the FWS, we reviewed legislation on the FWS; OPM regulations; OPM guidance, such as AF and NAF operating manuals; DOD documentation on the wage survey and wage schedule processes; Office of Management and Budget bulletins on delineations of metropolitan statistical areas, micropolitan statistical areas, and combined statistical areas; Federal Salary Council and President's Pay Agent reports for 2024 (published in 2023) to help inform how FWS wage areas could be affected by changes in GS locality pay

²DOD officials told us that they conduct such analysis routinely to determine if average wage rates are above or below prevailing wage rates.

areas; and our prior work on the FWS.³ We also interviewed OPM and DOD officials, all the FPRAC members on the committee as of February 2023, and all the DOD Wage Committee members on the committee as of July 2023 to obtain information on their roles and responsibilities for administering the wage surveys and setting the wage schedules.

We conducted this performance audit from February 2023 to March 2024 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

³Federal Salary Council, *Level of Comparability Payments for January 2024 and Other Matters Pertaining to the Locality Pay Program* (Washington, D.C.: Feb. 4, 2023). Office of Personnel Management, *Report on Locality-Based Comparability Payments for the General Schedule: Annual Report of the President's Pay Agent for Locality Pay in 2024* (Washington, D.C.: Oct. 3, 2023). GAO, *Improving the Pay Determination Process for Federal Blue-Collar Employees*, [GAO-FPCD-75-122](#) (Washington, D.C.: June 3, 1975).

Appendix II: GAO Contact and Staff Acknowledgments

GAO Contact

Yvonne D. Jones, (202) 512-6806 or jonesy@gao.gov

Staff Acknowledgments

In addition to the contact named above, Janice Latimer (Assistant Director), Susan Sato (Analyst in Charge), and Alice Lin made key contributions to this report. Additional assistance in their areas of expertise was provided by Michael Bechetti, Lindsey Cross, Caitlin Cusati, Sara Daleski, Amalia Konstas, Diana Moldafsky, Rhiannon Patterson, Suzanne Wren, Tyler Spunaugle, and Clarette Yen.

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