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BEFORE THE COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES
HEARING ON
"AN EXAMINATION OF THE VA OFFICE OF INSPECTOR GENERAL'S FINAL REPORT ON THE INAPPROPRIATE USE OF POSITION AND THE MISUSE OF THE RELOCATION PROGRAM AND INCENTIVES"

OCTOBER 21, 2015

Mr. Chairman and Members of the Committee, thank you for the opportunity to discuss the results of the Office of Inspector General's (OIG) recently published report on the use of the relocation program and incentives within the VA's Veterans Benefits Administration (VBA).[1] The report detailed results of our administrative investigation into allegations that VBA senior executives inappropriately used their positions for personal and financial benefit, and that VBA misused the VA relocation program for the benefit of its Senior Executive Service (SES) workforce. Our statement and comments will be limited in order to preclude any allegation that our testimony unduly influenced VA or the Department of Justice regarding potential administrative or criminal action. I am accompanied by Mr. Nick Dahl, Director, OIG's Bedford Office of Audits and Evaluations, and Ms. Linda Fournier, Director, OIG's Administrative Investigations Office.

BACKGROUND

In March 2015, the Chairman and Ranking Member of this committee and the Chairman and Ranking Member of the Senate Committee on Veterans' Affairs requested the OIG review allegations received concerning financial benefits and preference given at VA. An anonymous complainant alleged that the Director, VA Regional Office (VARO) Philadelphia, PA, improperly received $288,206.77 in relocation expenses for transferring from VBA Headquarters to her current position at the VARO and retained her high-level SES salary, despite the position being two levels lower on VA's SES pay scale. We were also asked to conduct a broader review of VA's permanent change of station (PCS) relocation expense program.

Permanent Change of Station Relocation Expenses

The Federal Travel Regulation (FTR) states that an employee transferring in the interest of the Government from one agency or duty station to another for permanent duty that is located at least 50 miles from their old duty station is eligible for relocation expense allowances. Examples of PCS relocation expenses include transportation, shipment and storage of household goods, and real estate expenses. Employees can also be eligible for temporary quarters subsistence expense (TQSE) allowance, which includes

[1] *Administrative Investigation: Inappropriate Use of Position and Misuse of Relocation Program and Incentives in VBA*, September 28, 2015.

reimbursement for temporary lodging, meals, tips, and dry cleaning. TQSE allowance is intended to reimburse an employee reasonably and equitably for expenses incurred when occupying temporary quarters.

Appraised Value Offer Program

As part of the relocation program, Federal agencies, including VA, can offer employees assistance through the Appraised Value Offer (AVO) program, which is designed to help employees sell their primary residence.[2] Each VA administration, including VBA, defines which employees are authorized to participate in the AVO program. The Under Secretary for Benefits told us that all VBA SES employees are offered AVO benefits when making a PCS move. While the employee's property is for sale, two separate appraisals are conducted to estimate the value of the home. The average of the two appraisals serves as a "back-up offer" for instances when the employee does not sell their home in a timely manner. If the home does not sell after being on the market for 60 days, the employee may accept the AVO. In these instances, a contractor buys the property from the employee for the average appraised value.[3] When the employee accepts the AVO, VA pays the contractor a home sale acquisition fee. In fiscal year (FY) 2014, this fee was 27.5 percent of the AVO, which is not above the rate negotiated by the General Services Administration for the contractor's Federal Supply Schedule contract.

VA's Senior Executive Pay Structure

In 2004, VA established a pay band structure for SES pay. In FY 2014, VA's SES salaries ranged from $120,749 to $181,500. VA categorized their SES positions into three different pay bands based on the scope of responsibility for each position:

- Pay band 1 is for higher complexity SES positions (for example, VA Chief of Staff)
- Pay Band 2 is for medium complexity SES positions (for example, Deputy Assistant Secretaries)
- Pay Band 3 is for lower complexity SES positions (for example, Associate Deputy Assistant Secretaries).

ADMINISTRATIVE INVESTIGATION: INAPPROPRIATE USE OF POSITION AND MISUSE OF RELOCATION PROGRAM AND INCENTIVES IN VBA

The position of Deputy Under Secretary for Field Operations (DUS for Field Operations) is a VA Central Office based SES position - Pay Band 1 position located in Washington, DC. The position is responsible for the oversight of the 4 Area Offices and 56 VAROs within VBA.[4] The Director of the Philadelphia and Wilmington VAROs is an SES

[2] These home sale assistance services are obtained through a contract procured by the U.S. General Services Administration's Federal Acquisition Service.

[3] In Fiscal Year 2014, VA utilized Federal Supply Schedule vendor Brookfield Global Relocation Services.

[4] In July 2015, VBA restructured its four Area Offices (Eastern, Southern, Central, and Western) into five District Offices (North Atlantic, Southeast, Midwest, Continental, and Pacific).

position - Pay Band 3 position and involves significantly less job responsibilities than the DUS for Field Operations.[5]

Relocation Expenses

VA paid a total of $274,019.12 related to the move of the DUS for Field Operations from the Washington, DC, area to the Philadelphia area. The payments were:

- $13,062.75 in TQSE allowance
- $10,524 in real estate expenses
- $67.68 in en route travel expenses
- $8,306.86 in withholding tax allowance
- $1,300 in miscellaneous expense allowance
- $211,750 paid to Brookfield Global Relocation (AVO contractor)
- $16,302.83 paid to Relocation Management Worldwide Inc. for the move and storage of household goods
- $12,705.00 paid to VA's Financial Service Center[6]

Salary Retention

According to Federal regulations, the SES rate of basic pay for a career senior executive may only be reduced if the senior executive has received a less than fully successful annual summary rating, or has otherwise failed to meet the performance requirements for a critical element. From FY 2009 to the time of the reassignment, the DUS for Field Operations was rated better than fully successful on all performance appraisals. Therefore, we concluded that all critical performance elements were met. Based on applicable Federal regulations, we determined VA could not reduce the annual salary upon reassignment despite the decrease in scope of responsibilities.

Review of VBA's Use of the PCS Program

As part of our assessment of VA's PCS program, we reviewed VBA reassignments of 7 General Schedule (GS) Grade 15 employees who were promoted to SES positions and 15 SES employees who moved to different SES positions in FYs 2013, 2014, and 2015.[7]

Annual Salary Increases

We determined that VBA management used reassignments through VA's PCS program as a way to increase SES pay. From FY 2010 to 2013, U.S. Office of Personnel Management (OPM) guidelines precluded all SES employees from receiving annual pay increases. Further, in 2012, the then VA Secretary determined no VBA executives would receive performance awards based on concerns over the backlog of veterans'

[5] Philadelphia VARO leadership has also remotely managed the Wilmington VARO since 2003.

[6] VA's Financial Services Center charged a fee of 6 percent of the Brookfield Home Sale invoice. This fee is charged to cover the cost of administering the PCS Home Sale Relocation contract. The Financial Services Center also pays a portion of this fee to VA's Technology Acquisition Center for assisted acquisition services.

[7] There were a total of 23 reassignments because 1 SES employee was reassigned twice—once in FY 2013 and again in FY 2015.

disability claims. During an interview, we asked the then Under Secretary for Benefits if salary increases and relocation incentives were a way to get around pay freezes and bans on performance bonuses. The Under Secretary stated that the salary increases were about “level-setting pay.” She stated further, “it was more about resetting from my perspective base pay to get everybody—get the ends of the bands into more of a—more even, more fair model.”

Twenty-one of the 23 reassignments included salary increases. These VBA reassignments resulted in annual salary increases totaling about $321,000 (average increase was $15,286). We identified concerns with the salary increases because they did not seem to consistently reflect changes in the positions’ scope of responsibility. Additionally, the VBA reassignments led to new vacancies in offices the SES employees left. We found that when VBA filled these vacant SES positions, the selectees often received significant annual salary increases over what their predecessors were paid.

Unjustified Relocation Incentives

OPM policy states an agency may pay a relocation incentive 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 in the absence of an incentive. In addition to annual salary increases, VBA paid seven employees relocation incentives when they moved to new positions. The seven relocation incentives totaled $140,000.

We determined that VA did not properly justify the incentives. Five relocation incentives were not justified because job vacancies were not announced or the positions were filled before candidates who applied were considered. The other two incentives were not timely justified, as the justifications were signed months after the job announcements were posted. The then Under Secretary for Benefits and the then VA Chief of Staff approved VBA’s relocation incentive justifications and payments.

PCS and AVO-Related Expenses

In addition to annual salary increases and relocation incentives, VBA paid relocation expenses for 20 of the 23 reassignments, which included AVO-related expenses for 11 of the moves. Specifically, VBA spent about $1.3 million on relocation expenses for these moves, including about $710,000 on AVO-related expenses and about $582,000 on other expenses, such as TQSE and moving and storage of household goods. While these reassignments resulted in significant costs to VA, these expenses were allowable under the Federal relocation program.

VBA spent a total of about $1.8 million for the 23 reassignments we reviewed from FYs 2013, 2014, and 2015—including annual salary increases, relocation incentives, AVO-related expenses, and other PCS expenses. While we do not question the need to reassign some staff to manage a national network of VAROs, we concluded that VBA inappropriately used VA’s PCS relocation program for the benefit of its SES workforce.

CONCLUSION

Our findings demonstrate the need for VA to take actions to strengthen the PCS program controls and oversight in order to improve the financial stewardship of taxpayer's funds. Further, the OIG does not question the need to reassign staff to manage a national network of VAROs; however, we did conclude that VBA misused VBA's PCS program for the benefit of its SES workforce. We provided 12 recommendations to VA to increase oversight of the Department's PCS program and to determine appropriate administrative actions to take, if any, against senior VBA officials. We will monitor VA's progress and follow up on VA's implementation actions until all actions are completed. I was pleased to recently learn that effective October 1, 2015, VA ceased offering the AVO program to its employees. The Department of Justice is also considering action but at this time a decision has not been made.

Mr. Chairman, this concludes my statement and we would be happy to answer any questions that you or Members of Committee may have.