VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS

Department of Veterans Affairs

Audit of Retention Incentives for Veterans Health Administration and VA Central Office Employees

November 14, 2011
10-02887-30

ACRONYMS AND ABBREVIATIONS

OIG	Office of Inspector General
PAID	Personnel and Accounting Integrated Data
RSA	Retention Service Agreement
SOU	Statement of Understanding
VA	Veterans Affairs
VACO	Veterans Affairs Central Office
VHA	Veterans Health Administration

Report Highlights: Audit of Retention Incentives For Veterans Health Administration and VA Central Office Employees

Why We Did This Audit

VA uses retention incentives to retain employees in hard-to-fill positions and employees who possess high-level or unique qualifications the Department does not want to lose. In FY 2010, VA paid nearly $111 million in retention incentives to 16,487 employees. We conducted this audit to determine the adequacy of Veterans Health Administration (VHA) and VA Central Office (VACO) processes for awarding retention incentives.

What We Found

VHA and VACO approving officials did not adequately justify and document retention incentive awards in accordance with VA policy. VA lacked clear guidance, oversight, and training to effectively support the program. VA officials did not effectively use the Personnel and Accounting Integrated Data system to generate timely review notices. VA officials also did not always stop retention incentives at the end of set payment periods.

Based on these findings, we questioned the appropriateness of 96 (80 percent) of 120 VHA incentives and 30 (79 percent) of 38 VACO incentives we reviewed. These incentives totaled about $1.06 million in FY 2010.

What We Recommend

We recommend the Assistant Secretary for Human Resources and Administration, in coordination with the Under Secretary for Health and the Deputy Assistant Secretary for the Corporate Senior Executive Management Office, revise and clarify guidance governing the retention incentive program. We recommend the Assistant Secretary for Human Resources and Administration institute controls to ensure that VA officials effectively stop benefits at the end of established payment periods, and notify responsible officials regarding awards pending review.

We recommend the Under Secretary for Health, the Assistant Secretary for Human Resources and Administration, and the Deputy Assistant Secretary for the Corporate Senior Executive Management Office conduct 100 percent reviews of retention incentives under their purview and stop unnecessary payments. These officials should provide the oversight and training needed to ensure responsible officials properly justify and document retention incentives awards.

Agency Comments

VA senior officials concurred with our report recommendations and provided acceptable corrective action plans. We will follow up on implementation of the initiated and planned corrective actions.

BELINDA J. FINN
Assistant Inspector General
for Audits and Evaluations

TABLE OF CONTENTS

INTRODUCTION

Objective

The VA Office of Inspector General (OIG) conducted this audit to determine whether Veterans Health Administration (VHA) and Veterans Affairs Central Office (VACO) processes are adequate for authorizing and managing retention incentives to employees.

Retention Incentive Payments

VA uses retention incentives to retain selected employees likely to leave Federal service in the absence of monetary benefit encouraging them to stay. Typically, such employees possess unusually high or unique qualifications, meet special VA needs, or hold hard-to-fill positions. For FY 2010, VA paid nearly $111 million in retention incentives to 16,487 employees.

The Office of Human Resource Management establishes policy for VA's retention incentive program. Responsibility for executing this policy is highly decentralized. Heads of administrations, assistant secretaries, deputy assistant secretaries, and facility directors award and manage retention incentives in their respective organizations. The Central Office Human Resource Service manages retention incentives requiring centralized approval for VA employees in headquarters positions in Washington, DC. Although the Chief Business Office Workforce Management previously managed retention incentives for VA senior executives, the Corporate Senior Executive Management Office currently has this responsibility.

OIG Hotline Report

This national audit builds on issues identified in our prior report, *Review of Retention Incentive Payments at VA Medical Center, Providence, Rhode Island* (Report No. 10-01937-68, January 20, 2011). The report concluded that in 17 (85 percent) of 20 cases reviewed, justification for retention incentive awards was not available or the supporting documentation was not adequate. As a result, the Providence medical facility paid inadequately justified or unsupported retention incentive payments to 17 employees, totaling almost $179,000 annually. In response to this report, VHA outlined actions to accomplish a 100 percent review of Providence employees' retention incentives, establish controls to ensure incentives meet VA policy, develop standard operating procedures, and establish a system for maintaining all information.

Appendix A provides background information and criteria for awarding retention incentives. Appendix B provides our audit scope and methodology. Appendix C outlines monetary benefits from this audit while Appendix D provides management comments in response to a draft of this report.

RESULTS AND RECOMMENDATIONS

Finding VHA and VACO Management of Retention Incentives Needs Improvement

VHA and VACO management did not effectively manage retention incentives in accordance with VA policy. When approving retention incentives, managers did not adequately justify award decisions and maintain supporting documentation. This occurred because the program lacked clear guidance, oversight, and training. VHA and VACO officials did not effectively use the Personnel and Accounting Integrated Data (PAID) system to timely generate notices of awards pending annual review and reauthorization. Officials also did not take actions to stop retention incentive payments at the end of designated award periods. Based on these issues, we questioned the appropriateness of 96 (80 percent) of 120 VHA incentives and 30 (79 percent) of 38 VACO incentives, totaling approximately $1.06 million during FY 2010.

Award Criteria

According to VA policy, the appropriate approving official must justify the reason for and the amount of a retention incentive in writing before the incentive can be paid. Retention incentives should be primarily justified based on the following:

- Employment trends and labor market factors, such as limited availability and scarcity of candidates possessing the competencies required for the position.
- Unsuccessful efforts to recruit candidates and retain employees with competencies similar to those possessed by the employee planning to leave Federal service.
- Special or unique competencies required for the position.
- Salaries typically paid outside the Federal government.

Appendix A contains more detail for consideration in awarding retention incentives.

VHA Retention Incentives

VHA used incentives to retain Title 5 employees in administrative and support services positions and Title 38 employees, such as physicians and nurses. In FY 2010, VHA paid nearly $110 million in retention incentives to 16,346 employees located at 162 facilities.

However, VHA retention incentive awards were not always well justified. At times, VHA awarded retention incentives for questionable reasons, such as increased compensation for employees. In numerous instances, documentation to support retention incentive awards was missing. For these reasons, we questioned the appropriateness of 96 (80 percent) of 120 VHA incentives, valued at about $547,000. The awards ranged from $260 to $43,733. We also observed that other information providing background and history on retention incentives was missing from case files and a group retention incentive exceeded authorized limits.

Inadequate VHA Awards Justification

We concluded VHA retention incentive awards for 29 (24 percent) of 120 cases, valued at $194,000, were not well justified. Recommending and approving officials did not adequately substantiate that retention bonus recipients possessed unusually high or unique qualifications, met special needs, or were likely to leave Federal service without monetary incentives to stay.

For example, a medical center director with an annual salary of $146,835 received an annual retention incentive of $5,517 in FY 2010. The executive initially received the retention incentive in 2009. In 2010 the director was transferred to a different facility and continued to receive the retention incentive. The award justification was not reassessed and updated to reflect the unusually high or unique qualifications needed to accomplish duties at the new location.

In other instances, the award justifications provided were faulty. A staff nurse at the VA Health Care System, Minneapolis, MN, with an annual salary of $95,237, received a group retention incentive of $7,589 in FY 2010. The justification stated the employee was likely to leave Federal service and had unusually high or unique qualifications; however, no evidence supported or described the employee's high or unique qualifications.

In another example, a nursing assistant at VA Medical Center Hampton, VA, with an annual salary of $32,359 in FY 2010, received an annual retention incentive totaling about $1,232. Managers incorrectly used a salary survey for licensed practical nurses instead of the salary survey for nursing assistants to justify the retention incentive for this employee. If management had applied the correct salary scale, the employee might not have been eligible for the retention incentive.

Questionable Use of VHA Retention Incentives for Compensation Package Increases

VHA sometimes awarded retention incentives for questionable reasons, such as increased compensation for employees. At two medical facilities we visited, we identified six cases totaling about $16,000 and $11,000 respectively where VHA used retention incentives to increase physician salaries as part of employees' compensation packages. A compensation package outlines agreements on an employee's annual salary and benefits as terms of employment with the agency. The award process and supporting documentation for increasing compensation packages did not meet VA's criteria for retention incentives.

Specifically, compensation panels were responsible for recommending compensation package increases, including retention incentives. The documentation the panels used did not fully capture the justification for paying retention incentives. The documentation also did not always include supervisory certifications, annual review results, applicable statements of understanding (SOUs), or retention service agreements (RSAs). A panel member we interviewed was unaware compensation decisions signed by facility directors were inadequate to justify retention incentive payments.

For example, a physician at VA Health Care System Minneapolis, MN, with an annual salary of over $224,000, received a retention incentive of about $7,642 as part of his compensation package. Supporting documentation in the compensation package did not include justification for the retention incentive, supervisory certifications, annual reviews, or applicable SOUs.

Missing VHA Awards Documentation

In many cases, files were missing to support VHA retention incentive award decisions. VA policy requires that, for a minimum of 3 years, human resources management officers maintain records sufficient to reconstruct determinations to award retention incentives.

Because of a lack of supporting documentation, we could not evaluate the appropriateness of VHA retention incentive payments in 67 (56 percent) of 120 cases, valued at about $353,000. Responsible personnel did not maintain signed management approvals to support the retention incentives. As such, we could not determine whether approving officials adequately identified unusually high or unique skills of the employees that VHA needed to retain. We also could not determine the basis for the supervisors certifying that the employees were likely to leave Federal service in the absence of monetary incentives. In some instances, documentation was missing to show that retention incentives had been annually reviewed and reauthorized from year-to-year as required. Following are details on two instances where we could not determine whether awards were valid because of missing documentation.

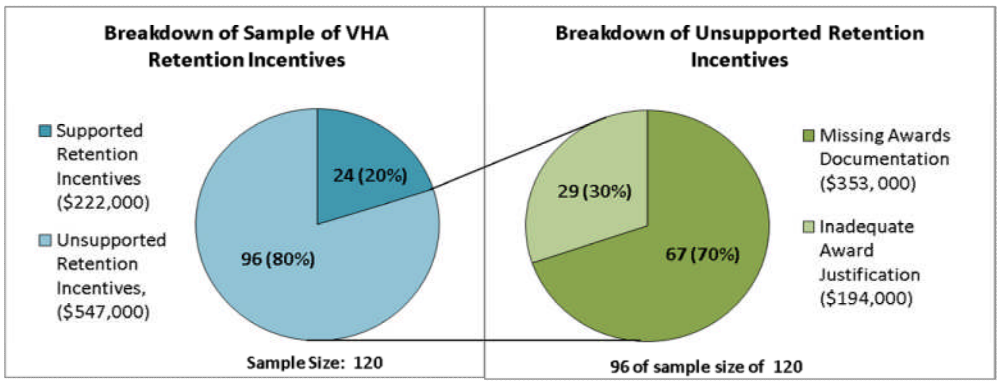
- A registered nurse at Veterans Affairs Medical Center Hampton, VA, with an annual salary of $85,021, received a 10 percent retention incentive totaling about $8,500 in FY 2010. The employee had received a total of more than $21,600 in retention incentives between FY 2008 and FY 2010.
- A radiologic technician at VA Health Care System Hines, IL, with an annual salary of $72,691, received a 9 percent retention incentive totaling about $6,500 in FY 2010. The employee had received a total of over $18,400 in incentives between FY 2008 and FY 2010.

Questioned VHA Retention Incentive Costs

As a result of the lack of justification, questionable use, and missing supporting documentation, we questioned the appropriateness of retention incentive payments to 96 of 120 VHA employees in FY 2010. The questionable awards were valued at about $547,000 of the total $769,000 in VHA retention incentives comprising our sample. Of the 96 awards questioned, 51 ($335,000) were Title 38 employees, while the remaining 45 ($212,000) were Title 5 employees. Figure 1 provides a breakdown of the errors identified in our sample.

Figure 1

Sample Assessment of VHA Retention Incentives



Source: VA OIG

Some locations were working to improve and help eliminate questionable payments. For example, during our audit, the Chief of Human Resources, VA Health Care System Palo Alto, CA stated they took actions to reduce the number of employees receiving retention incentives from 914 in FY 2010 to 399 in FY 2011 because the incentives were no longer required.

Other VHA Supporting Documentation Not Maintained

We found a lack of compliance with requirements to maintain complete and up-to-date VHA retention incentive award case files. A number of files we reviewed lacked various documentation, including the following:

- Supervisory certifications that employees were likely to leave Federal service in the absence of incentives
- Results of annual reviews to determine whether continued payments were appropriate and, if so, whether the payment amounts should be adjusted
- SOUs signed by employees acknowledging receipt of retention incentives
- RSAs acknowledging receipt of group retention incentives

The absence of such documentation demonstrates a lack of compliance and discipline in maintaining complete case file histories. Table 1 provides a breakdown on the additional supporting documentation typically missing from VHA retention incentive case files.

Table 1

VHA Retention Incentive Documents Not Maintained

Sites Visited & VA Entities	Sample Size	Supervisory Certification		Annual Review		Statement of Understanding		Retention Service Agreement	
		Required	Not Maintained	Required	Not Maintained	Required	Not Maintained	Required	Not Maintained
Richmond, VA	20	20	20	1	1	1	1	19	20
Hampton, VA	20	20	17	0	0	0	0	20	20
Minneapolis, MN	20	20	17	6	6	7	6	12	12
Ann Arbor, MI	20	20	5	5	2	9	3	11	0
Hines, IL	20	20	9	10	3	10	5	10	10
Palo Alto, CA	20	20	15	6	1	6	0	14	10
Totals:	**120**	**120**	**83**	**28**	**13**	**33**	**15**	**86**	**71**

Source: VA OIG

VHA Awards Exceeded Established Limits

We also identified one instance where VHA made a group retention incentive award that exceeded established limits. According to VA guidance, the retention incentive rate for a specific category or a targeted group of employees may not exceed 10 percent of each employee's salary. Rates higher than 10 percent require Office of Personnel Management approval for Title 5 employees, or Under Secretary for Health approval for Title 38 employees.

At VA Health Care System Hines, IL, we identified a group retention incentive with a rate exceeding 10 percent of salary. Hines management had awarded the incentive to 11 employees. The 11 employees were not part of our sample population. The incentives for these employees totaled over $79,000 and ranged from over 10 to 20 percent of the employees' salaries.

VACO Retention Incentives

In FY 2010, VACO paid 38 employees approximately $618,000 in retention incentives. Centralized approval was required for these VA employees in headquarters positions in Washington, DC. VACO awarded incentives to Title 5 employees in administrative and support services positions, such as contracting, information technology, engineering, human resources and administrative support. The employees received incentives awards ranging from $337 to $41,930, averaging about $16,700 per person.

However, VACO retention incentive awards were not always well justified. In numerous instances, documentation to support retention incentive awards was inadequate or missing. For these reasons, we questioned the appropriateness of 30 (79 percent) of 38 VACO incentives, valued at about

$514,349. Of the 30 awards questioned, 26 were awarded to Title 5 employees ($456,725) and 4 were to Title 38 employees ($57,624).

Inadequate VACO Awards Justification

We concluded VACO retention incentive awards for 18 (47 percent) of 38 cases reviewed, valued at $310,000, were not well justified. Recommending and approving officials did not adequately substantiate that retention bonus recipients possessed unusually high or unique qualifications, met special needs, or were likely to leave Federal service without monetary incentive to stay.

For example, a senior executive with an annual salary of $156,797 received an annual retention incentive of approximately $26,000, in addition to a $13,000 senior executive service award. In February 2009, a senior official initially disapproved the retention incentive because the employee was a first year as a senior executive and was on probation. One month later, this same senior official approved a second retention incentive request for the employee even though the employee was still on probation. No information was available in the files to explain this action. The justification we found did not adequately explain why it was essential to retain the employee or whether the employee actually planned to leave Federal service.

Missing VACO Awards Documentation

Despite requirements to maintain records for a minimum of 3 years, numerous case files lacked documentation to support VACO retention incentive decisions. We could not evaluate the appropriateness of VACO retention incentive payments in 12 (32 percent) of 38 cases, valued at about $204,000. Responsible officials within Central Office Human Resource Services and the Corporate Senior Executive Management Office did not maintain signed forms approving the retention incentive awards. They did not have on file supporting information substantiating that the employees had unusually high or unique skills that VACO needed to retain.

They also did not have supervisors' certifications that the employees were likely to leave Federal service in the absence of monetary incentives. In some instances, documentation was missing to show that retention incentives had been annually reviewed and reauthorized from year-to-year as required. Following are two examples of questionable retention incentives because of missing documentation.

- A human resource information system specialist with an annual salary of $136,771 received a 15 percent retention incentive totaling about $20,300 in FY 2010. The employee had received a total of about $58,600 in retention incentives between FY 2008 and 2010.

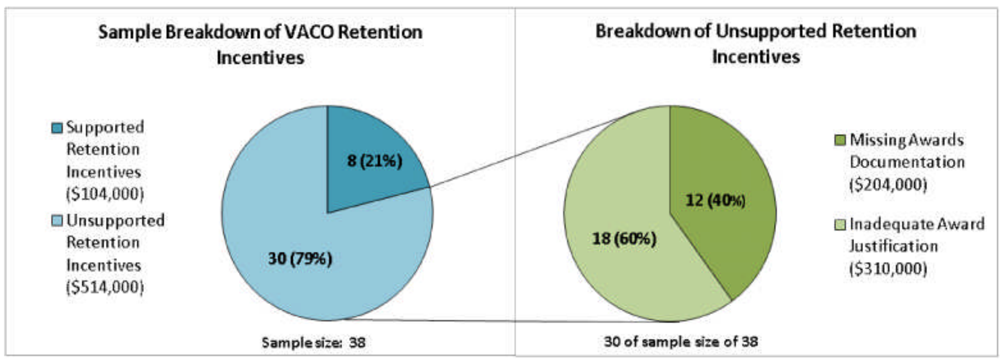
- An administrative officer with an annual salary of $119,238 received a 15 percent retention incentive totaling about $17,500 in FY 2010. The employee had received about $49,800 in retention incentives between FY 2008 and 2010.

Questioned VACO Retention Incentive Costs

As a result of the lack of justification and missing supporting documentation, we questioned the appropriateness of retention incentive payments awarded to 30 (79 percent) of 38 VACO employees, totaling about $514,000 in FY 2010. Figure 2 provides a breakdown of the errors identified in our sample.

Figure 2

Sample Assessment of VACO Retention Incentives



Source: VA OIG

Other VACO Supporting Documentation Not Maintained

We found a lack of VACO compliance with requirements to maintain complete and up-to-date retention incentive award case files. A number of files we reviewed lacked various documentation, including the following:

- Supervisory certifications that employees were likely to leave Federal service in the absence of incentives
- Results of annual reviews to determine whether continued payments were appropriate and, if so, whether the payment amounts should be adjusted
- SOUs signed by employees acknowledging receipt of retention incentives

The absence of such documentation demonstrates a lack of compliance and discipline in maintaining complete case file histories. Table 2 provides a breakdown on the additional supporting documentation typically missing from VACO retention incentive case files.

Table 2

Assessment of VACO Approval Documentation

Sites Visited & VA Entities	Sample Size	Supervisory Certification		Annual Review		Statement of Understanding	
		Required	Not Maintained	Required	Not Maintained	Required	Not Maintained
COHRS	20	20	12	16	14	20	14
CSEMO	18	18	15	16	16	18	15
VACO Washington, DC	**38**	**38**	**27**	**32**	**30**	**38**	**29**

Source: VA OIG

The Office of Human Resources Management and the Corporate Senior Executive Management Office were working to improve and help eliminate questionable payments. For example, during our audit, the Office of Human Resource Management initiated actions to draft new national guidance in response to our Providence hotline report. The Central Office Human Resource Service is in the process of drafting new localized policies for retention incentives. The Corporate Senior Executive Management Office had terminated one award and had initiated actions to review all senior executive retention incentives to ensure they were adequately justified. Also, the office was drafting policy for awarding retention incentives to senior executives.

Inadequate Controls for Retention Incentive Management

Controls were not adequate to ensure that VHA and VACO effectively managed retention incentives in accordance with established policy. Following are areas where mechanisms were lacking or ineffective to ensure the integrity of retention incentive awards.

Inadequate Guidance. Policy on retention incentives was embodied in VA Handbook, Chapter 3, “Retention Incentives,” Chapter 35, Part VI. However, the handbook was fairly high-level in some aspects. Additional detail was needed on using the policy in areas such as surveying and comparing VA vs. local employee salaries to justify retention incentive awards or calculating the amount of a monetary incentive based on an employee’s qualifications and skills and the position filled. There was no guidance on how to use monetary incentives to retain employees in high turnover positions as part of workforce succession planning. Guidance was unclear on what supporting documentation needed to be maintained to demonstrate that an employee was likely to leave Federal service in the absence of monetary benefit. Clarification was also needed on the feasibility of using retention incentives as part of employee compensation packages.

Insufficient Oversight. The oversight process was insufficient to ensure effective processing and approval of retention incentives. Human Resource Management officials responsible for technical review of the requests did not always ensure the completeness of retention incentive packages prepared in organizations under their purview. In turn, senior approving officials within medical facilities and VACO organizations often signed off on retention incentive packages they received from Human Resource Management without ensuring that the requests were adequately justified and documented to meet requirements prescribed in the VA Handbook.

Lack of Training. Not all responsible personnel were adequately trained. Human resource personnel needed additional detailed training on the process and procedures to request, review, authorize, and approve retention incentive awards. Also, personnel needed training to cover requirements for maintaining documentation to support retention incentive decisions.

Ineffective Use of the PAID System. VA used the PAID system, which fed accounting data to the Defense Finance and Accounting Service, to make retention incentive payments to employees. PAID had functionality to generate automated notices alerting approving officials 5 months in advance of the end date of awards so that required annual reviews and reauthorizations could be conducted. However, Human Resource Management personnel did not consistently input the end dates for the awards to make effective use of this functionality. No mechanism was in place to ensure personnel maximized use of the system capability. Officials also did not take action to stop retention incentive payments at the end of authorized periods. Retention incentive payments sometimes continued until human resource management officials manually terminated them when brought to their attention.

Conclusion

Retention incentives are a valuable tool to retain quality and critical employees. However, adequate justification and supporting documentation for incentive awards are not only needed to meet VA policy requirements, but also to ensure transparency and the integrity of the program. As we determined through our audit, in numerous instances VHA and VACO officials did not effectively manage retention incentives in line with this criteria. As a result, we questioned the appropriateness of 96 (80 percent) of 120 VHA incentives and 30 (79 percent) of 38 VACO incentives we reviewed, totaling approximately $1.06 million during FY 2010. Improved management controls, such as clear guidance, adequate oversight, additional training, and consistent system use are needed to provide reasonable assurance that the monetary incentives paid to retain employees are in the best interest of the Department.

Recommendations

1. We recommend the Assistant Secretary for Human Resources and Administration, in coordination with the Under Secretary for Health and the Deputy Assistant Secretary for the Corporate Senior Executive Management Office, issue revised national guidance clarifying the

retention incentive process and what is needed to adequately justify, approve, and support an incentive award.

2. We recommend the Assistant Secretary for Human Resource Administration institute control mechanisms to ensure responsible personnel consistently use the Personnel and Accounting Integrated Data system to generate and distribute alerts and obtain responses to those alerts for retention incentives pending review to determine whether to continue or stop payments at the end of established award periods.
3. We recommend that within the next 6 months, the Under Secretary for Health conduct a 100 percent review of the retention incentive awards we identified as unsupported within our sample to determine appropriateness and stop unnecessary payments.
4. We recommend the Under Secretary for Health conduct a 100 percent review of all retention incentive payments over the next 12 months in line with the required annual review process to assess appropriateness and stop unnecessary payments.
5. We recommend the Under Secretary for Health provide the oversight and training needed to ensure responsible officials properly justify, approve, and maintain supporting documentation for retention incentives as required by policy.
6. We recommend that within the next 6 months, the Assistant Secretary for the Human Resources and Administration conduct a 100 percent review of the retention incentive awards we identified as unsupported within our sample to determine appropriateness and stop unnecessary payments.
7. We recommend the Assistant Secretary for Human Resources and Administration conduct a 100 percent review of all retention incentive payments over the next 12 months in line with the required annual review process to assess appropriateness and stop unnecessary payments.
8. We recommend the Assistant Secretary for Human Resources and Administration provide the oversight and training needed to ensure responsible officials properly justify, approve, and maintain supporting documentation for retention incentives as required by policy.
9. We recommend that within the next 6 months, the Deputy Assistant Secretary for Corporate Senior Executive Management Office conduct a 100 percent review of the retention incentive awards we identified as unsupported within our sample to determine appropriateness and stop unnecessary payments.
10. We recommend the Deputy Assistant Secretary for Corporate Senior Executive Management Office conduct a 100 percent review of all retention incentive payments over the next 12 months in line with the

required annual review process to assess appropriateness and stop unnecessary payments.

11. We recommend the Deputy Assistant Secretary for the Corporate Senior Executive Management Office provide the oversight and training needed to ensure responsible officials properly justify, approve, and maintain supporting documentation for retention incentives as required by policy.

Management Comments and OIG Response

In their written comments on a draft of this report, the Under Secretary for Health, the Assistant Secretary for Human Resources and Administration, and the Deputy Assistant Secretary for Corporate Senior Executive Management Office each concurred with our report recommendations and provided acceptable corrective action plans. Appendixes D, E, and F provide copies of their written comments. For example, VHA has defined a three-stage process for completing its corrective action items. By September 30, 2012, VHA plans to review the 96 facility-based retention incentives we identified, 100 percent of all Senior Executive Service and Senior Executive Equivalent retention incentives currently in place, and 100 percent of the 16,000 non-Senior Executive Service and Senior Executive Equivalents retention incentives currently in place. VHA indicated that any retention incentives that did not meet the required criteria would be terminated immediately.

VA Central Office Human Resources is updating VA policies on retention, recruitment and relocation incentives. The policies will be implemented after appropriate coordination with the VA Administrations and Staff Offices. Central Office Human Resources plans to develop a standard operating procedure for approval, issuance, and maintenance of records; run bi-weekly reports to capture the expiration date of each retention incentive to ensure termination or extension is processed appropriately; complete a 100 percent review of the 30 retention incentives we identified; ensure that all retention incentives are thoroughly reviewed bi-annually; and oversee the retention incentive program, including training, guidance, and policy to all human resource staff and stakeholders within Central Office.

Further, the Corporate Senior Executive Management Office coordinated with VHA and Human Resources on the revised Departmental guidance clarifying the retention incentive process and what is needed to adequately justify, approve, and support a retention incentive. The office is also taking steps to ensure payments are stopped at the end date of incentive periods, complete a 100 percent review of the 18 incentives we identified, and implement program improvements as appropriate in response to the issues we identified in our report.

We will monitor the Department’s progress and follow up on implementation of all proposed actions until they are completed.

Appendix A Background

VA uses retention incentives to retain selected employees who are likely to leave Federal service in the absence of monetary benefits encouraging them to stay. In FY 2010, VHA paid nearly $110 million in retention incentives to 16,346 employees nationwide. In FY 2010, VACO paid approximately $618,000 in retention incentives to 38 employees requiring centralized approval in headquarters positions with a duty location in Washington, DC. The Office of Human Resource Management sets policy for managing retention incentives Department-wide.

Retention Incentives Criteria

VA Handbook 5007, Part VI, Chapter 3 outlines the process for preparing and approving requests for retention incentives. In determining whether to award a retention incentive, managers are required to consider and document a number of factors including:

- Employment and labor market trends (such as the availability and quality of candidates possessing the competencies needed) and who, with minimal training, cost, or disruption of service to the public, could perform the full range of duties and responsibilities of the position at the level performed by the employee.
- The success of efforts within the previous 6 months to recruit candidates and retain employees with competencies similar to those possessed by the employee.
- Special or unique competencies required for the position.
- The extent to which the employee's departure would affect VA's ability to carry out an activity, perform a function, or complete a project essential to VA's mission.
- Salaries typically paid outside the Federal government.

In addition to considering and documenting the factors described above, supervisors are to provide separate certification that an employee is likely to leave Federal service in the absence of an incentive. This certification, made only when a supervisor is reasonably convinced the employee is likely to leave Federal service, may be based on:

- Receipt by the employee of one or more bona fide offers of employment, as evidenced by a formal written job offer or affidavit signed by the employee providing the position and salary being offered, and the name and location of the organization;
- Evidence of high demand in the private sector for the knowledge and skills possessed by the employee and significant pay disparities between Federal and non-Federal service; or

- Discussion with the employee of the employee's career plans.

Policy requires that approving officials review retention incentives at least annually to determine whether continued payments are appropriate and, if so, whether the amounts should be adjusted. Approving officials may continue payments as long as the conditions giving rise to the original determinations to pay the incentives still exist.

Appendix B Scope and Methodology

We conducted this performance audit from July 2010 through September 2011. We reviewed VHA's retention incentives paid between October 1, 2009, and September 30, 2010. Initially, we statistically selected 10 VHA sites based on probability proportional to size, which would have allowed us to project our results across the total VHA universe. Given the progress of our audit, the results identified in our prior review, and discussions with VHA senior leadership, we adjusted the scope of our audit. We reduced the number of VHA sites in our sample from 10 to 6 (Richmond, VA; Hampton, VA; Minneapolis, MN; Ann Arbor, MI; Palo Alto, CA; and Hines, IL). For each of the 6 sites, we selected a random sample size of 20, resulting in a review of 120 cases. As a result of our reduction in scope, we are not able to project our audit results across the VHA universe.

We added a review of retention incentives requiring centralized approval for VA employees in headquarters positions in Washington, DC. We reviewed all 38 retention incentives awarded by VACO between October 1, 2009, and September 30, 2010.

We interviewed approving officials, human resource managers, fiscal officials, and staff at selected facilities to meet our audit objectives. In addition, we interviewed officials in VACO, VHA, and the Defense Finance and Accounting Service.

We reviewed and performed data analysis on available supporting documents, such as retention incentive requests, annual reviews, supervisory certifications, SOUs, and RSAs. We discussed questionable cases and exceptions we identified with Human Resource Managers and responsible officials to understand the basis for authorizing the retention incentives.

Reliability of Computer-Processed Data

To test the reliability of computer-processed data, we compared PAID data to employee retention incentive file source documents, including SOUs, RSAs, and Veterans Health Information Systems and Technology Architecture screen printouts. For the purposes of our audit, we concluded that the data was sufficiently reliable for the 120 VHA employees and the 38 VACO employees in our sample.

Government Audit Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. These 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 objective.

Appendix C Potential Monetary Benefits in Accordance With Inspector General Act Amendments

Recommendation	Explanation of Benefits	Better Use of Funds	Questioned Costs
1	Ensure payment of retention incentives is appropriate for 96 cases at VHA and 30 cases at VACO	0	$1,061,000
	Totals:	0	**$1,061,000**

Appendix D Under Secretary for Health Comments

Department of Veterans Affairs

Memorandum

Date: October 24, 2011

From: Under Secretary for Health (10)

Subj: OIG Draft Report, Audit of Retention Incentives for Veterans Health Administration VA Central Office Employees (VAIQ 7160225)

To: Assistant Inspector General for Audits and Evaluations (52)

1. I have reviewed the draft report and concur with the report's recommendations. Attached is the Veterans Health Administration's (VHA) corrective action plan for the report's recommendations pertinent to VHA.

2. In response to the Office of Inspector General (OIG) recommendations, VHA has defined a three-stage process to complete the action items:

   a) Review the 96 facility-based retention incentives identified by OIG as unsupported within its sample by April 15, 2012;

   b) Review 100 percent of all SES/SES EQV retention incentives currently in place. While the recommendation suggests this be completed in the next 12 months, we plan to complete this review by November 30, 2011;

   c) Review 100 percent of the 16,000 non-SES/SES EQV retention allowances currently in place by September 30, 2012.

3. On September 26, 2011, the VHA Workforce Management and Consulting (WMC) Office issued supplemental guidance on the proper use of retention incentives for Senior Executive Service (SES) and SES Equivalent (SES-EQV) employees. Any retention incentives that do not meet the required criteria will be terminated immediately.

4. WMC is in the process of developing similar guidance that will direct VHA program offices and field facilities to conduct a complete review of non-SES retention incentives currently in place and terminate any that do not meet required criteria.

5. Thank you for the opportunity to review the draft report. If you have any questions, please contact Linda H. Lutes, Director, Management Review Service (10A4A4) at (202) 461-7014.

Robert A. Petzel, M.D.

Attachment

VETERANS HEALTH ADMINISTRATION (VHA)

Action Plan

OIG Draft Report, Audit of Retention Incentives for Veterans Health Administration and VA Central Office Employees (VAIQ 7160225)

Date of Draft Report: September 13, 2011

Recommendations/Status	Actions	Completion Date

Recommendation 3. We recommend that within the next 6 months, the Under Secretary for Health conduct a 100 percent review of the retention incentive awards we identified as unsupported within our sample to determine appropriateness and stop unnecessary payments.

VHA Comments

Concur

The Under Secretary for Health (USH) will direct a 100 percent review of the 96 retention incentives the Office of Inspector General (OIG) identified as unsupportable or lacking appropriate documentation and stop any unnecessary payments.

	In Process	April 15, 2012

Recommendation 4. We recommend the Under Secretary for Health conduct a 100 percent review of all retention incentive payments over the next 12 months in line with the required annual review process to assess appropriateness and stop unnecessary payments.

VHA Comments

Concur

Senior Executive Service (SES) /SES-Equivalent (SES-EQV) Employees

On September 26, 2011, the USH issued a memorandum to Chief Officers, Veterans Integrated Service Network (VISN) Directors, and Veterans Health Administration (VHA) Senior Staff, directing a complete review of retention incentives for all SES and SES-EQV employees. Included with the memorandum was detailed guidance on the proper use of retention incentives, with detailed instructions for the preparation of fully documented requests for approval. Memo recipients were instructed to terminate immediately any incentives that do not meet the required criteria.

For those retention incentives that do meet required criteria, a new request for approval must be submitted to VHA's Workforce Management and Consulting Office (WMC) no later than October 31, 2011.

In Process October 31, 2011

VHA has established a Retention Incentive Technical Review Board (RITRB) which will provide oversight for all SES and SES-EQV retention incentives. All retention incentives will be evaluated by the board for adherence to criteria and recommendations for approval or disapproval, and will be forwarded to the Department of Veterans Affairs (VA) Chief of Staff. RITRB reviews will be completed no later than (NLT) November 30, 2011.

In Process November 30, 2011

Non-SES/SES-EQV Employees

Guidance is under development that will direct VHA field facilities to conduct a complete review of non-SES retention incentives currently in place. Detailed guidance on the proper use of retention incentives, with instructions for the preparation of fully documented requests for approval, will be included. The guidance will also require that all retention incentives for non-SES/SES-EQV employees be approved at the Network level. All Networks will be required to establish a Network RITRB to review non-SES/SES-EQV retention incentive requests. All retention incentives approved by Network RITRBs will be required to be reported to WMC. The reviews by Networks will be required to be completed NLT September 30, 2012.

In Process September 30, 2012

Recommendation 5. We recommend the Under Secretary for Health provide the oversight and training needed to ensure responsible officials properly justify, approve, and maintain supporting documentation for retention incentives as required by policy.

VHA Comments

Concur

In addition to the guidance described in the response to Recommendation 4, VHA's Human Resource (HR) Development Staff will provide special virtual training sessions on retention incentives to the VHA HR community. The objectives of this training will be to ensure HR Managers and Officers have a solid understanding of the laws and regulations governing retention incentives, the required documentation for approval, and the requirement for annual review of all approved retention incentives. HR Managers will be reminded to place a follow-up code in the Personnel and Accounting Integrated Data (PAID) system for all retention incentives to ensure that annual reviews are completed as required. This special training will be completed NLT December 31, 2011.

In Process December 31, 2011

Veterans Health Administration

October 2011

Appendix E Assistant Secretary for Human Resources and Administration Comments

Department of Veterans Affairs

Memorandum

Date: November 8, 2011

From: Assistant Secretary for Human Resources and Administration (006)

Subj: OIG Draft Report, Audit of Retention Incentives for VA Central Office Employees (VAIQ 7160225)

To: Assistant Inspector General for Audits and Evaluations (52)

1. I have reviewed the draft report and concur with the report's recommendations. Attached is the VA Central Office (VACO) corrective action plan in response to the report's recommendations that are pertinent to VACO.

2. Also, the Office of Human Resources Management is updating VA policies on retention, recruitment and relocation incentives. After appropriate coordination with the Administrations and Staff Offices, the policy will be implemented.

3. Thank you for the opportunity to review the draft report. If you have any questions, please contact Tonya M. Deanes, Deputy Assistant Secretary for the Office of Human Resources Management, at (202) 461-7765.

(original signed by:)

John U. Sepulveda

Attachment

VETERANS AFFAIRS CENTRAL OFFICE HUMAN RESOUCRES (COHRS) ACTION PLAN

OIG Draft Report, Audit of Retention Incentive for Veterans Health Administration and VA Central Office Employees (VAIQ 7160226)

Date of Draft Report: September 13, 2011

Recommendation/Actions	Status	Completion Date

Recommendation #1: We recommend the Assistant Secretary for Human Resources Management in coordination with Under Secretary for Health and the Deputy Secretary for Corporate Senior Executive Management Office (CSEMO), issue revised national guidance clarifying the retention incentive process and what is needed to adequately justify, approve, and support an incentive award.

COHRS Comments: Concur. VA Central Office Human Resources (COHRS) staff developed a Recruitment, Retention and Relocation (3R) Standard Operating Procedure (SOP) for approval, issuance and maintenance of 3R records.

	In Process	December 31, 2011

Recommendation #2: We recommend the Assistant Secretary for Human Resources and Administration (HR&A) institute control mechanisms to ensure responsible personnel consistently use the Personnel and Accounting Integrated Data system (PAID) to generate and distribute alerts and obtain responses to those alerts for retention incentives pending review to determine whether to continue or stop payments at the end of established award periods.

COHRS Comments: Concur. COHRS will run bi-weekly reports to capture the expiration date of each incentive to ensure termination or extension action is processed appropriately.

	In Process	

Recommendation #5: We recommend that within the next six months, the Assistant Secretary for Human Resources and Administration conduct a 100 percent review of the retention incentive awards we identified as unsupported within our sample to determine appropriateness and stop unnecessary payments.

COHRS Comments: Concur. The Assistant Secretary for Human Resources directed a 100 percent review of the 30 retention incentives identified by the Office of Inspector General (OIG) as unsupportable or lacking appropriate documentation and to stop unnecessary payments.

	In Process	April 15, 2012

OIG Draft Report, Audit of Retention Incentive for Veterans Health Administration and VA Central Office Employees (VAIO 7160226)

b) We recommend the Assistant Secretary for Human Resources and Administration conduct a 100 percent review of all retention incentive payments within the next 12 months in conjunction with required annual reviews to assess appropriateness and stop unnecessary payments.

COHRS Comments: Concur. The COHRS Director oversees the retention incentive program and ensures that all retention incentives are thoroughly reviewed bi-annually. Any retention incentives that do not meet the required criteria will be terminated.

In Process June 30, 2012

c) Provide the oversight and training needed to ensure responsible officials properly justify, approve, and maintain supporting documentation for retention incentives as required by policy.

COHRS Comments: Concur. The COHRS Director oversees the retention incentive program which includes providing training, guidance and policy to all COHRS staff members and stakeholders within Central Office.

In Process FY 2012, Q2

Appendix F Deputy Assistant Secretary for the Corporate Senior Executive Management Office Comments

Department of Veterans Affairs

Memorandum

Date: November 9, 2011

From: Deputy Assistant Secretary for Corporate Senior Executive Management Office

Thru: Chief of Staff *(Original initialed 11/9/11)*

Subj: Draft Report, Audit of Retention Incentives for Veterans Health Administration and VA Central Office Employees, OIG Project No. 2010-02887-D2-0313

To: Assistant Inspector General for Audits and Evaluations

1. This responds to your September 19, 2011, memorandum, subject: Draft Report, Audit of Retention Incentives for Veterans Health Administration and VA Central Office Employees, in which you requested written comments and concurrence or non-concurrence for each finding and recommendation.

2. When Secretary Shinseki arrived at VA and received President Obama's mandate to transform the Department into a 21st century organization, he realized the management of VA's executive cadre needed to change. He proposed a corporate office to assist him with the selection, development, utilization and management of VA's strategic human capital resources charged with leading the Department and most effectively serving our Nation's Veterans. The establishment of the office was fully vetted through VA's governance structure. The office was approved in October 2009. A Deputy Assistant Secretary for Corporate Senior Executive Management Office (CSEMO) was appointed in 2010 and the office was staffed and trained. CSEMO was moved to the Office of the Secretary in January 2011 and positioned to provide oversight and integrated management of executive programs. The CSEMO faced an enormous challenge to meld 3 ways of doing business (i.e., VHA, VBA, and VACO/ NCA) into 1 corporate approach, while continuing to provide service to our customers. CSEMO is looking at every aspect of lifecycle management of the SES cadre, developing a corporate approach in each area and refining that approach as necessary to get it right.

   Over the past year, CSEMO has been working to improve oversight and management of the overall Senior Executive Service (SES) and SES-equivalent incentives program. While we have made significant progress, the fast pace and ever changing priorities required to build a Department-level corporate program for the lifecycle management of VA's executive cadre has prevented us from achieving all desired improvements. Your report will drive us toward a renewed focus and will ultimately facilitate our development of a sound program.

CSEMO Response to Draft OIG Report

3. VA recently had the opportunity to respond to a September 1, 2011, inquiry from Mr. Jeff Miller, Chairman of the House Veterans Affairs Committee (attachment 1) concerning VA's incentives and performance awards programs. In our response to Mr. Miller (attachment 2), which is focused primarily on the Senior Executive Service, we addressed what VA is currently doing to improve the incentives program (recruitment, relocation, and retention) in the context of broad improvements we are making in the overall corporate executive management program. Paragraph 4 below addresses specific improvements we are making in the area of retention incentives.

4. CSEMO is committed to a complete overhaul of the retention incentive program for executives. We have begun our reengineering effort but have much more to do. Specific actions that CSEMO has initiated to improve the program follow:

a. As our response to Chairman Miller indicated, since June 2011, VA has been conducting a system-wide review of the overall incentives program. CSEMO's efforts to improve retention incentives began in late 2010. In December of 2010, CSEMO proposed for VHA's consideration specific criteria for determining the amount (percentage) of each incentive requested. CSEMO and VHA are working jointly to establish appropriate, meaningful criteria that will be applied to new incentive requests.

b. CSEMO's initial review of retention incentives focused on determining if each was still warranted after considering such factors as whether the incentive was needed to retain the employee, whether labor-market factors made it more likely (or reasonably likely) to recruit a candidate with competencies similar to those possessed by the employee, or whether VA's need for the services of the employee had been reduced to a level that made it unnecessary to continue paying a retention incentive. Initial results of this review resulted in CSEMO identifying 2 questionable incentives; both are on your SES case list. We immediately initiated action to terminate these incentives in April of 2011.

c. Early in 2011, CSEMO became aware that there was not a consistent, reliable mechanism for terminating an incentive when an executive moved to a position different from the one for which the incentive was approved. The Code of Federal Regulations requires that we terminate an incentive when an executive is reassigned. We realized that, through an oversight, an executive continued to receive an incentive after the date of reassignment. As soon as we realized this error, we stopped the incentive. In another instance, we were able to stop the incentive upon reassignment. Our review indicated that in other situations, executives' incentives were correctly stopped when reassignments occurred and notices of termination were not needed. To ensure we take appropriate action to terminate retention incentives, CSEMO has refined our reassignment process to include a review of any retention incentive the executive receives and termination of the incentive effective the date the executive is reassigned.

2

CSEMO Response to Draft OIG Report

d. When CSEMO recently became aware that retention incentives implemented prior to CSEMO's standup were not ending automatically at the end of the period of time for which they were approved (e.g., 1, 2, or 3 years, etc.), we took action. The OIG draft report also noted this problem on page 10 in the section entitled Ineffective Use of PAID System. We understand from VHA that executives receiving incentives are generally not aware of the date their individual incentive is scheduled to end, and would be taken by surprise if the incentive ended without notice. To resolve this issue for the future and ensure incentives do not extend beyond the approved duration, CSEMO will provide written notification to each executive for whom a retention incentive is approved that the incentive has been approved, the duration that has been approved, that the incentive will end at the conclusion of the duration period approved for the incentive, and that no additional notice will be provided unless the incentive is terminated for other reasons (e.g., the executive is reassigned, the incentive is no longer needed or no longer justifies the amount initially approved, etc.). CSEMO will also monitor end dates entered in the PAID system and take appropriate action to ensure they actually end on scheduled end dates.

e. Since it became fully staffed and operational, CSEMO has closely scrutinized new retention incentive requests. When appropriate, requests have been returned for additional justification. No new retention incentives have been approved since June 2011. Currently there are only 7 retention incentives being paid that have been approved since Secretary Shinseki arrived; 2 of these incentives were approved at lower amounts than initially requested.

f. A review of all current retention incentives is underway. Of the 78 retention incentives currently being paid, 76 are paid to executives in VHA and 2 in the Office of Information & Technology (OI&T). On September 26, 2011, the Under Secretary for Health (USH) initiated a complete review of all retention incentives paid to VHA SES and SES-equivalent employees. USH requires responsible VHA officials to determine if the current incentive meets established regulatory criteria. VHA will submit a new request to CSEMO for each incentive that is still warranted and meets the criteria. Incentives that are no longer needed or do not meet the criteria will be terminated. CSEMO will closely scrutinize the new requests and make a recommendation to the Chief of Staff for the Secretary's consideration/decision.

5. I offer the following comments in response to specific recommendations for CSEMO in your draft report "Audit of Retention Incentives for Veterans Health Administration and VA Central Office Employees:"

   a. OIG Recommendation 1: That the AS for HR&A, in coordination with the USH and DAS for CSEMO, issue revised Departmental guidance clarifying the retention incentive process and what is needed to adequately justify, approve, and support a retention incentive.

3

CSEMO Response to Draft OIG Report

CSEMO Response: Concur with OIG recommendation. CSEMO has been working and will continue coordinating with AS for HR&A and USH on the issuance of revised guidance clarifying the retention incentive process and the requirements for adequately justifying, approving, and supporting retention incentives. Further, CSEMO has provided initial guidance and will formally publish any necessary guidance to address unique executive retention incentive issues.

b. OIG Recommendation 2: That the AS for HR&A institute control mechanisms to ensure responsible personnel consistently use the PAID system to generate and distribute alerts and obtain responses to those alerts for retention incentives pending review to determine whether to continue or stop payments at the end of established incentive periods.

Although Recommendation 2 is not addressed to CSEMO, CSEMO has conducted a review and is using PAID data to ensure payments are stopped on the end date of incentive periods as we conduct the 100 percent review of current retention incentives and for retention incentives approved in the future.

c. OIG Recommendation 9: That within the next 6 months, the DAS for CSEMO conduct a 100 percent review of the retention incentives OIG identified as unsupported within its sample to determine appropriateness and stop unnecessary payments.

CSEMO Response: Concur with OIG recommendation. Attachment 3 shows the current status of the 18 SES and SES-equivalent retention incentives reviewed by OIG. Only 8 of the 18 are currently being paid. CSEMO is reviewing the original documentation for all cases to include these 8 cases from VHA and will make recommendations on all incentives by the end of December 2011. If any of these cases are resubmitted under the process described in paragraph 4f above, they will receive the same close scrutiny that is being applied to all requests before recommendations are forwarded to OSVA.

d. OIG Recommendation 10: That the DAS for CSEMO conduct a 100 percent review of all retention incentive payments over the next 12 months in line with the required annual review process to assess appropriateness and stop unnecessary payments.

4

CSEMO Response to Draft OIG Report

CSEMO Response: Concur with OIG recommendation. As explained in paragraph 4f above, a 100 percent review of currently paid retention incentives is underway in VHA. VHA will submit a new request to CSEMO for any incentive recommended and ensure full justification. CSEMO will closely review each request submitted to assess appropriateness and recommend stopping any that are unnecessary or unsupported. CSEMO's review and OSVA oversight will be completed by January 2012. CSEMO is also reviewing the 2 OI&T incentives currently being paid to ensure they are needed and fully supported.

e. OIG Recommendation 11: That the DAS for CSEMO provide the oversight and training needed to ensure responsible officials properly justify, approve, and maintain supporting documentation as required by policy.

CSEMO Response: Concur with OIG recommendation. As indicated in paragraph 4 above, CSEMO is aware of specific program improvements that must be implemented. We are incorporating these improvements and the issues identified by your review in our standard processes. We have begun training the staff and will ensure that this process is followed precisely. We will closely scrutinize requests submitted for consideration, and provide appropriate feedback and training for the organizations that have difficulty properly justifying requests. We will ensure that supporting documentation is properly maintained and appropriate recommendations are made to OSVA.

6. I appreciate the time and attention your team devoted to the audit and the opportunity you have provided us to respond. Your report is very helpful as we continue efforts to improve the executive incentives program.

Christine L. Kluh

Enclosures

5

Overview of Retention Incentives

- 143 VA executives received incentives in January 2009
- 78 VA executives receiving retention incentives as of 10/24/11
  - 76 in VHA (71 SES, 5 SES-Equivalent)
    - 52 medical center/health care system directors
    - 13 Virtual Integrated Systems Network (VISN) directors
    - 11 other health care positions/program directors
  - 2 in OI&T
- 71 approved before 1/20/2009
  7 approved after 1/20/2009
- 5 incentives terminated during 2011 (no longer necessary or executive reassigned to another position)
- Preliminary assessment of all incentives underway, including 8 active cases reviewed by OIG during audit of VACO retention incentives
- Full review of all incentives and OSVA oversight completed by January 2011

6

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DEMOCRATIC STAFF DIRECTOR

September 1, 2011

The Honorable Eric K. Shinseki
Secretary
U.S. Department of Veterans Affairs
810 Vermont Ave NW
Washington DC 20420

Dear Secretary Shinseki,

As you know, we are beginning to reign in out-of-control spending that threatens the health of our nation. Consistent with the realities of a fiscally conservative climate, a two-year freeze on Federal employee pay is in effect through December 31, 2012. Further, the 112th Congress convened in January of this year and adopted a 5% budget cut.

Notwithstanding the government-wide pay freeze, VA retained the ability to offer pay increases, performance awards, and bonuses for many of its employees on the grounds that they would help it to retain high quality employees in critical health care or information technology positions. Based on recent news reports regarding large retention bonuses for Medical Center directors who were at or near retirement, and our own investigation showing bonuses going to facility directors who had been cited for extensive mismanagement, I have serious concerns about VA's use of its discretion in these matters. Accordingly, I ask you to freeze or eliminate the current bonus program for the Executive Career Field pending a system-wide review of the program's integrity.

Mr. Secretary, with so many Americans struggling for any paycheck at all, it is imperative that the integrity of VA's employee compensation system be above reproach. Going forward, I look forward to working with you on how we can ensure that is the case.

Thank you for your consideration of my request. I look forward to your response.

Sincerely,

Jeff Miller
Chairman

THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

October 14, 2011

The Honorable Jeff Miller
Chairman
Committee on Veterans' Affairs
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman,

I am responding further to your letter of September 1, 2011, requesting the Department of Veterans Affairs (VA) freeze or eliminate the current bonus program for the Executive Career Field pending a system-wide review of the program's integrity. Issues of fiscal responsibility are of utmost importance to VA. My firm commitment to fiscal responsibility extends to VA's performance and incentive programs.

VA's executive performance management program is sound. In the last two years, the Department has made significant improvements to ensure the program is credible, transparent, and consistent with law and regulation. VA implemented fiscal year (FY) 2011 changes and is working with the Office of Personnel Management (OPM) to leverage Government-wide improvements in FY2012. As it has done in the past, VA will provide FY2011 results to the Committee in February 2012.

VA has been engaged in a thorough review of our incentive program to strengthen our processes, control mechanisms and program oversight. This review has resulted in renewed scrutiny and program improvements. VA is following the Administration's OPM/Office of Management and Budget June 10, 2011, guidance concerning limiting expenditures for individual awards and incentives during FY2011 and 2012. We are on target with performance awards, and will ensure that spending on incentives in 2011 and 2012 does not exceed calendar year 2010 levels.

Early on, I recognized that VA's senior executive management needed improvement. In the fall of 2009, I established a corporate office, reporting to the Assistant Secretary for Human Resources and Administration, to centrally manage VA's executive corps. VA hired a director in February 2010 and began laying the foundation for corporate management. In January, the corporate office was moved under the Office of the Secretary.

This new office has had a tremendous impact on improving executive lifecycle management. VA has improved the fairness and credibility of our processes and policies for hiring, developing and compensating executives. The Department is scrutinizing incentives currently in place, and conducting a comprehensive review of the entire program. Since 2009, the number of VA executives receiving incentives has been reduced by about 40 percent. Almost all of those incentives were approved and in place prior to my tenure; since my arrival I have judiciously approved far fewer incentives.

Page 2

The Honorable Jeff Miller

We are also addressing executive mismanagement and have taken appropriate action in a number of cases. As one indicator of our effort to hold executives accountable, several executives departed last year as a result of poor performance.

Incentives were approved and used correctly to retain the two medical center directors referenced in your letter. The directors were paid in pay period installments based on their agreement to remain with VA, and they fulfilled their agreements. VA did not pay them after they retired, and their annuities did not increase as a result of their incentives. The incentives did what VA intended them to do.

Freezing performance award and incentive programs would be detrimental to VA's ability to recruit and retain a highly qualified workforce. We must retain these flexibilities in order to provide the level of care and service our Nation's Veterans deserve. We have worked hard and continue to work hard to hire and retain the best executives in critical positions within VA. In some cases, these executives came from managing large organizations or programs successfully in the private sector. Those same skills and experiences are needed to manage our own large organizations, medical centers, or resource intensive programs such as the GI Bill. Our performance award and incentive programs are intended to support our efforts in this regard and we carefully apply those incentives, when appropriate.

Enclosed is a fact sheet that provides additional information on the improvements VA has made in the management of executives, including performance award and incentive programs. If you have additional questions, or desire a briefing on VA's programs, please have a member of your staff contact Mr. Matthew Santos, Congressional Relations Officer, VA Office of Congressional and Legislative Affairs. He can be reached at (202) 461-6442, or by e-mail at matthew.santos@va.gov.

Thank you for your continuing support of our mission.

Sincerely,

Eric K. Shinseki

Enclosure

Department of Veterans Affairs (VA)

VA Performance Management, Performance Awards and Incentives, and Corporate Executive Management

Fact Sheet

Performance Management and Performance Awards

Secretary Shinseki centralized the lifecycle management of VA's executive cadre and established a Corporate Senior Executive Management Office (CSEMO) in October 2009. CSEMO began operations in 2010 and immediately focused on improving the executive performance management program. VA has made significant progress resulting in an executive performance management program that is sound, transparent, accountable, and consistent with law and regulation.

In the past, VA's Performance Review Board (PRB) process, through which executive performance results are assessed, was decentralized. We now have one centralized VA PRB that serves as an honest-broker across the Department to recommend performance ratings and awards for the Secretary's consideration. VA will continue to use this rigorous PRB process for the fiscal year (FY) 2011 process and beyond.

Each year, before executive performance award recommendations are forwarded for the Secretary's decision, a final check is done with VA's Office of Inspector General and Office of General Counsel to determine if there are any ongoing investigations or audits that may reflect unfavorably on the executives. Throughout the Department, we have communicated the requirement to make meaningful distinctions in performance, as required for certification of our Senior Executive Service (SES) appraisal system, and have been successful in achieving greater distinctions. In 2010, VA provided comprehensive training for executives across the Department to ensure all understood the program and had an opportunity to express their concerns. Senior leadership is fully engaged in this program. As in previous years, VA will forward its executive performance appraisal results to the Committee in February 2012.

SES performance awards are the culmination of VA's rigorous performance appraisal process. The Office of Personnel Management (OPM), with concurrence from the Office of Management and Budget, has certified, under provisions of 5 U.S.C. 5307(d)(2), that VA has a performance appraisal system that, as designed and applied, makes meaningful distinctions in performance. Before budgetary restrictions were imposed on SES performance awards, 5 U.S.C. Section 5384 limited expenditures for Career SES awards. The aggregate amount of performance awards paid could not exceed 10 percent of the aggregate amount of basic pay paid to Career executives in VA during the preceding FY. Over the past three years, VA has allocated less than the 10 percent of aggregate pay; for FY 2008 performance, 9 percent; FY 2009, 8 percent; and FY 2010, 7 percent, and the same percentages for SES-equivalent Title 38 awards.

The 5 percent limit on awards expenditures, which we will apply to FY 2011 awards, acknowledges the need for restrained spending but will also permit us to recognize our very highest performers.

Although 5 U.S.C. Section 5384 allows agencies to grant individual Career SES performance awards that are no higher than 20 percent of an executive's salary, for FY 2010 performance, the highest award Secretary Shinseki granted was 15.5 percent. Unlike the practice in some government agencies, a VA executive who receives a Presidential Rank Award does not also receive an additional performance award for that year.

VA is working closely with the OPM to build on the success the Department has realized. VA envisions additional program enhancements in FY 2012 and beyond.

Incentives

Recruitment, relocation, and retention incentives are compensation flexibilities available to help VA recruit and retain a high quality workforce. Incentives are particularly important to VA's Veterans Health Administration (VHA) Executive Career Field which covers executives and non-executives. VHA is the Nation's largest integrated health care system with more than 8 million Veteran enrollees. There is strong rationale for using incentives for highly skilled individuals in occupations that are in high demand outside the Federal government, where pay is significantly higher. These employees provide or support direct care to the Nation's Veterans. VA needs to attract and retain the best, and in some cases, that requires offering an incentive.

As is true throughout the Federal government, VA's senior executives in VHA and throughout the Department serve in key positions just below the top Presidential appointees, and are the major link between these appointees and the rest of the Federal workforce. This executive cadre is the key driver of VA's success. During this Presidential administration, our focus is on transforming VA into a 21st century organization, as we continue to provide the best possible service to our Nation's Veterans. To achieve its goals, VA needs to attract and retain the very best leaders. Although VA is making great strides, there is still much to do. The Department's ability to make progress will be diminished if it freezes or eliminates personnel management flexibilities. If the Department was to disadvantage itself by reducing its ability to use compensation flexibilities on par with the authority available to other agencies, it would jeopardize its ability to attract and retain the best executive talent.

VA is improving its incentives program, including strengthening its control mechanisms and program oversight, and ensuring that each justification fully supports the incentive. Since June 2011, VA has been conducting a system-wide review of this program. During this review, the Department is terminating individual incentives that are no longer appropriate, and modifying those that no longer support the level initially approved. Before 2009, annual renewals of SES incentives were approved below the Secretary level. There is now in place a very deliberate approval process through which each executive incentive request receives close scrutiny. All initial requests and annual renewals for SES and SES-equivalent incentives are forwarded to the Office of the Secretary for consideration. The Department will ensure that incentives are terminated when employees move from one position to another. Requests that are not supportable are disapproved, and some requests are approved in amounts lower than requested. For non-executives, each new request for a group incentive of less than 10 percent is approved by a Veterans Integrated Service Network Director, or at the Deputy Assistant Secretary level, or higher. A group incentive of 10 percent or more must be submitted by an Administration Head, Assistant Secretary, or other key official through the chain of command to the OPM. Any new non-executive Title 38 group incentive of 10 percent or more must be approved by the Under Secretary for Health.

The Department is confident that its comprehensive review, close scrutiny of new requests, and renewed attention to program oversight and controls will address any concerns you have.

Corporate Executive Management

You inquired about the 2 specific issues above that, while important, are only a part of the Secretary's overall initiative to improve executive lifecycle management. Since his arrival, the Secretary has championed a holistic, corporate approach to executive management to ensure VA has the right people in the right place ready to execute VA's critical mission. VA is transforming executives into 21st century leaders who can drive the Department forward to best meet the needs of Veterans, their families and survivors.

Shortly after CSEMO moved under the Office of the Secretary, VA began streamlining the entire SES recruitment process. VA's new process is automated, efficient, and collaborative, and is envied throughout this Department and beyond. VA now prepositions the tools needed to recruit for positions, and, using advance information about departing executives, is reducing overall hiring time. In support of the President's Hiring Reform Initiative, VA was one of the first Department's to aggressively implement the streamlined, resume only recruitment process that eliminates the requirement to submit lengthy narratives for employment consideration. The process and tools VA developed have been shared with other agencies to assist in their implementation. This new process makes it easier for those outside government to apply for executive positions and encourages a more diverse applicant pool.

In July 2010, VA centralized the Executive Resources Board process for conducting the merit staffing process for initial career appointment to the SES, eliminating multiple Boards that functioned independently. This policy change provides corporate visibility over the intake of VA's new leaders. With our new staffing process, the ERBs meet virtually, with each member working independently on line. This is a tremendous step forward for VA. This new process is being reviewed by other agencies for adoption.

VA is 1 of 7 agencies piloting OPM's Executive Onboarding Framework that was recommended to the President's Management Council (PMC) for government-wide implementation. In alignment with the PMC's Career Development Initiative and in support of VA's strategic mission and the Secretary's Transformation Initiatives, CSEMO developed a structured Onboarding Program for Executives to help them build leadership capabilities, establish networks and relationships, gain knowledge and insight of the organizational and political structure, and achieve executive success. The goals of onboarding are to welcome new executives and minimize the time required for executives to become productive in their agency, organization and new position. VA provides a robust orientation for new executives to foster an understanding of VA and its governance process, and to communicate the strategic vision and direction of the agency. The Secretary and VA's senior leadership participate in the Forum.

VA launched its Senior Executive Strategic Leadership Course (SLC) in March 2011. It is designed to use executive education as a driving force to lead change for the VA. This is a 5½-day course where our executives learn key content and insight, participate in simulations and group activities, and work on designated VA challenges for potential implementation. The course addresses strategic leadership and working across functional and organizational lines to improve service delivery. VA takes advantage of the opportunity to hire from other agencies current executives with proven records of success. VA has sharpened its qualifications requirements to ensure we are not emphasizing agency-related experience to the detriment of well qualified candidates from outside VA. VA is committed to diversity in the broadest sense by attracting executive talent with strong executive qualifications including minorities, women, individuals with disabilities, from within the VA, outside the VA, and outside the government.

VA is developing an executive talent management system through which the Department will assess its current executives against VA's highest missions and priorities. The Department is committed to attracting highly skilled executives, developing and retaining them given the dynamic "war for talent" environment. CSEMO's Senior Executive Talent Management program is a deliberate process through which VA will build the capacity to achieve mission and organizational goals with the right talent, in the right place, at the right time, and close talent gaps through a systematic process that integrates each element of the career lifecycle. Successful talent and succession management are critical to VA's ability to transform into a 21st century department.

VA launched an executive collaborative Web site in 2011 to enhance communication efforts among VA's executives. This tool helps break down silos in VA in order to improve service delivery to Veterans, and promotes idea sharing/problem solving among our executives. In addition to delivering timely, valuable information, it enhances networking, knowledge sharing and collaboration. The Web site provides senior

4

executives an opportunity to share with their peers ideas, knowledge, and best practices.

These ongoing efforts and initiatives are critical in facilitating integration and collaboration across the Department's enterprise resulting in improved delivery of services to our most important customer - our Nation's Veterans.

Corporate Senior Executive Management Office
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Appendix G OIG Contact and Staff Acknowledgments

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