

**U.S. Office of Personnel Management
Office of Merit Systems Oversight and Effectiveness**

Follow-up Report of a Special Study

Incentive Awards:

*The Changing Face
of
Performance Recognition*

DALLAS OVERSIGHT DIVISION
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I. EXECUTIVE SUMMARY

“If somebody throws a brick at me, I can catch it and throw it back.
But when somebody awards a decoration to me,
I am out of words.”
- Harry S. Truman

This is a follow-up to OPM’s 1998 *Report of a Special Study on Incentive Awards*. This report summarizes the results of interviews with Incentive Awards Program Managers in the same 15 Federal agencies that participated in the earlier study. The interviews focused on how the redesign efforts of the agencies’ incentive awards programs that were anticipated in the 1998 study are progressing. The following are the key findings:

- C Eight of the fifteen agencies have accomplished major redesigns of their incentive awards programs. Two agencies had made minor changes in their programs. Five agencies have not attempted any redesign of their programs, but most are contemplating some changes in the near future.
- C The redesign efforts in most agency programs included consultation with key stakeholders (managers, employees, and union representatives). The most common changes included the delinkage of awards to performance appraisals, and an increased use of automation to disseminate incentive award information via local area networks, intranets, or the internet.
- C Lack of timely funding through the budget process is still a weakness in two agencies. This limits the ability to give recognition soon after an employee’s achievement, a common goal in the redesign efforts.
- C All agencies feel that the current Governmentwide regulations give them sufficient latitude to design the type of awards program that best fits their situation.

II. INTRODUCTION

“I don’t deserve this award, but I have arthritis and I don’t deserve that either.”

- Jack Benny

Changes in Federal regulations dealing with performance management and incentive awards became effective in September 1995. Those changes provided agencies new flexibility in designing and operating their performance management and recognition programs. The new regulations supported agencies’ increasing desire to recognize team accomplishments, to tie performance evaluation and rewards more closely to achievement of organization goals, and to delink incentive award decisions from dependence on annual performance appraisal processes.

The Office of Merit Systems Oversight and Effectiveness (OMSOE) released a *Report of Special Study on Incentive Awards* in August 1998.¹ That study analyzed incentive awards programs in the 15 Federal agencies that were reviewed under OMSOE’s regular oversight program during FY 1996 and FY 1997. The study reported that, at the time of their respective oversight reviews, most agencies were in various stages of exploring, designing, or preparing to make changes in their performance management and incentive awards programs. In order to assess the outcome of these changes, OPM conducted a follow-up review at each agency during July and August of 1999.

PURPOSE AND METHODOLOGY

The purpose of this follow-up review to the 1998 *Special Study on Incentive Awards* was to determine how well the redesign efforts of each of the 15 agencies are progressing; to determine whether those efforts are producing positive results; and to identify “lessons learned.”

The review consisted of two elements: (1) a telephonic interview with the Incentive Awards Program Manager for each agency; and (2) a review of the current incentive awards program instructions and guidance of each agency.

Interviews and document reviews were conducted in the 15 agencies listed in Table 1.

¹The full text of this report is available on OPM’s website at www.opm.gov.

Table 1 Interviews Completed During July - August 1999	
Department of Agriculture (USDA)	Environmental Protection Agency (EPA)
Department of the Air Force (AF)	Equal Employment Opportunity Commission (EEOC)
Department of the Army (AR)	Federal Emergency Management Agency (FEMA)
Department of Commerce	General Services Administration (GSA)
Department of Justice (DOJ)	National Aeronautics and Space Administration (NASA)
Department of State	National Archives and Records Administration (NARA)
Department of the Treasury	Securities & Exchange Commission (SEC)
Department of Veterans Affairs (VA)	

We also reviewed data from OPM’s Merit System Principles Questionnaire (MSPQ), which is administered annually to a representative sample of Government employees and supervisors.

EXPECTED OUTCOMES

The following merit system principles, codified in title 5, United States Code (U.S.C.), outline the intent of Federal incentive awards programs:

- C “...appropriate incentives and recognition should be provided for excellence in performance.”
5 U.S.C. 2301(b)(3)
- C “All employees and applicants for employment should receive fair and equitable treatment in all aspects of personnel management without regard to political affiliation, race, color, religion, national origin, sex, marital status, age, or handicapping condition, and with proper regard for their privacy and constitutional rights.”
5 U.S.C. 2301(b)(2)

Success in applying the merit system principles is evident when:

- C management devotes appropriate resources to incentive awards;
- C award decisions are based on excellence in employee performance;
- C employees have confidence that awards are distributed fairly, without regard to race, national origin, sex, or other non-merit factors; and
- C management gives priority to the integrity and effectiveness of awards program administration.

III. FINDINGS

“You've got to be careful if you don't know where you are going,
because you might not get there.”

- Yogi Berra

Ten of the fifteen agencies interviewed have taken advantage of regulatory changes and, since our 1998 report, have substantially redesigned their incentive awards programs. The results of our follow-up interviews and documentary reviews at each agency are summarized in Appendix B. Readers will find interesting details and variations in these accounts. We also noted some common trends, which are summarized as follows.

FUNDING: VARIETY IS STILL THE NORM

In our 1998 report, we identified fairly wide variations among the 15 agencies in the amount of money devoted to incentive awards. However, most Incentive Awards Program Managers interviewed during the follow-up indicated their agencies were not considering changes in their awards budget at an agency-wide level. They recognize that funding levels may vary between bureaus and subordinate activities, but there was no current effort to review or change this.

In the 1998 study, we reported that some agency and bureau headquarters did not issue awards funding allocations or funding guidance until late in the fiscal year. The extent to which such delays were the common practice or reflected some unusual, one-time circumstance was not always clear. Since funding levels and guidance could vary from year to year, local managers complained that they could not predict how much they would have and could not plan how to use it.

In our follow-up review, two agencies reported that they still struggle with obtaining awards funding early enough in the fiscal year to maximize the timeliness and meaningfulness of recognition. As a result, these agencies are forced to grant most of their awards at the end of the year, which their Incentive Awards Program Managers view as a problem. One Manager said that, as a result of unreliable funding, some program managers are driven to using Quality Step Increases (QSI's) to recognize deserving employees because QSI's are not linked to the awards budget. This practice prevents accurate tracking of award costs and may unduly inflate salary expenses over the long term.

EXCELLENCE: STRENGTHENING THE LINK

In the 1998 study, we reported that none of the agencies reviewed had issued formal definitions of what constitutes “performance excellence.” Managers and supervisors generally said they interpret “excellence” as performance that exceeds “fully successful” standards and that contributes to improvements in organizational productivity, customer service, or accomplishment of organizational goals.

The majority of agencies interviewed during our follow-up—and especially those who have substantially redesigned their incentive awards programs—have focused on delinking awards and performance appraisals. Most of them have shifted their focus away from annual performance awards and say they are taking steps to more closely link performance recognition to strategic plans, goals, and results, as contemplated by the Government Performance and Results Act. There may be a contradiction here, since it seems that a successful Results Act-based awards program might naturally rely on Results Act-based work plans. It is clear that agencies must struggle with how to reconcile differing philosophies on performance appraisal, and, right now, the emphasis is on delinking appraisals and rewards. To accomplish this, some plan to emphasize group awards for organizational achievement in lieu of individual awards. They are also striving to establish balanced, flexible recognition programs that feature a variety of group and individual awards, rather than focusing on one or two types of awards.

CONFIDENCE: PERCEPTION IS REALITY

In the 1998 report, OPM found that employees of the 15 agencies in the study group shared in the skepticism with which most Government employees view the utility of incentive awards. In 1997, only 28 percent of the workforce said that the performance award system acted as an incentive to do good work. In our 1999 Governmentwide survey, the proportion of those who held that view dropped to 23 percent.

To address this low level of confidence in the award system, many Incentive Awards Program Managers interviewed during the follow-up sought the involvement of key stakeholders (managers, employees, and union representatives) in the redesign of incentive awards programs. Our 1998 study reported that many employees liked the idea of peer involvement in award processes, and the agency confirmed this in their stakeholder consultations. As a result, a number of redesigned programs now include peer involvement in the nomination process.

According to one Incentive Awards Program Manager, supervisors and managers have mixed reactions to peer involvement in the nomination process, and some feel left out of the decision-making. Based on their discussions with employees, Incentive Awards Program Managers say

some employees are very pleased with the peer involvement effort. However, they say some employees continue to question the fairness of the process.

To improve the visibility and openness of the awards program, most agencies are making maximum use of local area networks, intranets, and the internet to disseminate newsletters, policy guidance and regulations, employee handbooks and various forms for downloading or electronic processing of awards nominations. This allows information to be disseminated to the lowest level possible to keep the workforce informed and supportive of recognition programs. Managers, supervisors, and employees can review regulatory guidance at their computers and, in some cases, electronically submit nomination forms. Most agencies have determined the use of automation is a key element to a timely and effective awards program.

PROGRAM ADMINISTRATION: LISTEN TO YOGI

In the 1998 study, OPM reported that its review of over 2,400 individual award actions showed there was a strong adherence to Federal and agency regulations regarding awards. However, there was little evidence of any significant effort to monitor or evaluate the results of awards programs.

The program redesign efforts underway in the agencies in our study sample show that these organizations are aware of the need to improve their programs. While the agency improvement efforts were typically precipitated by the changes in the flexibility of Governmentwide regulations, the resulting redesign plans were developed with substantial input from key stakeholders, which is a key tool in sound program development and evaluation. However, many agency programs—including the redesigned ones—still lack an accountability system component to continuously monitor adherence to awards policies, to assess the results of the redesign efforts, and to identify opportunities for additional improvements.

The agency representatives interviewed for this report still believe that the current Governmentwide regulations afford them the flexibility needed to design and implement award programs appropriate for their organization and culture.

IV. CONCLUSIONS

"I haven't failed, I've found 10,000 ways that don't work."
- Benjamin Franklin

Our 1998 report recommended the following improvement strategies for agency award programs:

- C Link performance recognition to strategic plans, goals, and results
- C Establish flexible award programs with a variety of group and individual awards
- C Consider using more honorary awards, with provision for peer nomination
- C Improve publicity on awards program activity
- C Allocate award "budgets" and guidance early in the fiscal year
- C Consider employee concerns when establishing award programs and policies
- C Establish accountability systems to monitor and improve award programs

With the possible exception of our recommendation regarding accountability systems, all of these strategies are reflected in the agency redesign efforts. The principle of peer involvement has been employed in areas that extend beyond honorary awards, and computer technology has been used creatively, not only to improve publicity but also to streamline processes.

The 1998 report promised at least one more follow-up review beyond this one. OMSOE is beginning its second four-year cycle of full-scale agency reviews, and the agencies visited in FY 1996 will be visited again in FY 2000. This will enable us to review awards program activity in more depth in half of the agencies in our study group, to observe and assess first-hand the impact of the redesign efforts reported here.

APPENDIX A AWARD DEFINITIONS

Definitions of the award categories used in this report are as follows:

Performance Awards - Cash awards that are based solely on employees' performance ratings of record assigned at the end of the appraisal period. These awards are intended to recognize sustained levels of successful performance over the course of the rating period.

Special Act or Service Awards - Lump-sum cash awards that recognize specific accomplishments that are in the public interest and have exceeded normal job requirements. These awards can be for individual or group contributions. On-the-spot (OTS) awards are special act or service awards which normally provide immediate recognition for employees, are limited in amount (e.g., \$250 or less), and delegate award approval to first-line supervisors.

Quality Step Increases (QSI) - Awards for sustained high-quality performance that provide faster-than-normal progression through the step rates of the General Schedule. Unlike other forms of monetary recognition, QSI's permanently increase an employee's rate of basic pay. No more than one QSI may be granted to an employee in the same 52-week period.

Time-off Awards (TOA) - The granting of time off without charge to leave or loss of pay to an employee as an individual or member of a group. The value of a TOA is time, not money. A TOA may not be converted to cash.

Other - Types of cash recognition, such as suggestion and invention awards, not included in the categories above.

APPENDIX B

SYNOPSIS OF AGENCY REDESIGN EFFORTS

Department of Agriculture (USDA). USDA has made minor changes in its incentive awards program since OPM's review in FY 1997. USDA established an employee recognition policy working group in 1999, consisting of the employee recognition program manager, employees, managers, and union representatives, to review existing policy and refine the Department's program. The group is evaluating the current thinking in both the public and private sectors. The redesign process will include efforts to better align employee recognition with USDA organizational goals. USDA is in the process of issuing a new policy which will include gift certificates, savings bonds, and career service recognition. USDA's current employee recognition program includes peer involvement in nominations and public recognition of award recipients at the local level and headquarters. USDA publishes quarterly reminders about employee recognition program guidelines and conducts meetings with bureau staff regarding program policy changes. The criteria for USDA's major honorary awards have been revised to support the USDA Strategic Plan. USDA's awards forms are now available to employees as personal computer files, and employee recognition policy is accessible through the internet. The last employee survey concerning the employee recognition program was conducted in 1998.

Department of the Air Force (AF). Since OPM's review in FY 1996, AF has made a major change in its incentive awards program. AF issued new policy guidance, Air Force Instruction 36-1004 (Managing the Civilian Recognition Program), which became effective July 1, 1999. AF is in the process of revising Air Force Pamphlet 36-2861 (Civilian Recognition Guide). AF's redesign efforts allow time-off awards to be granted by first-line supervisors, streamline the nomination process by use of a simplified AF Form 1768 (Staff Summary Sheet), and revise honorary incentive awards. AF's incentive awards program includes public recognition of award recipients at local ceremonies and with messages sent throughout the AF. While there is no peer involvement in the nomination process, employees do serve on awards review boards at base level. AF has increased the awareness of award recipients by using its intranet for publicity on awardees. No formal surveys have been conducted recently; however, the Incentive Awards Program Manager informally talks with award personnel at major commands.

Department of the Army (AR). AR has not made any major change in its incentive awards program since OPM's review in FY 1997. AR is currently staffing a rewrite of its incentive awards regulation. The redesigned process will include paperless processing and tracking of awards, establishing new honorary and public service awards, and continuing a close alignment of military and civilian awards whenever possible. AR's incentive awards program includes public recognition of award recipients at local

ceremonies; however, peer involvement in nomination depends on command policy. AR still relies on appraisal-based awards; however, the Incentive Awards Program Manager encourages commanders to consider more use of special act and other nonmonetary awards. AR uses its civilian personnel website for posting of all regulations and award information. AR conducts an annual survey of employees and supervisors regarding the incentive awards program. It uses the results to help determine training needs and improvement opportunities.

Department of Commerce. Since OPM's review in FY 1997, the Department of Commerce has made major changes in its incentive awards program. The Department incorporated incentive awards in their new Performance Management Handbook issued in the Fall of 1999. The objective of the web-based handbook is to provide managers with a wide array of guidance and information on performance appraisal, feedback and awards. The handbook permits bureaus to develop either a 2-level or 5-level appraisal process. The 2-level system permits bureaus to delink awards from the performance appraisal process. The handbook includes a section on peer recognition, which provides guidance on how to establish a peer award program. One organization currently has a peer recognition program, the Office of the Chief Financial Officer and Assistant Secretary for Administration (CFO/ASA). Last year, the Department revised the Honor Awards (Gold, Silver and Bronze) criteria to more closely link the accomplishments to the Department's Strategic Plan. The revised criteria include seven categories that are designed to broaden the nomination base to allow for greater representation of all grades and occupations. In addition, the Department implemented a web-based Honor Awards Nomination System (HANS) which allows managers to enter, edit, review and approve nominations online. Other improvements include an increase in the annual dollar limitation for on-the-spot ("Cash in a Flash") awards to \$1,000, and automation of a single award nomination form for all non-Honor awards. The Department's incentive awards program includes public recognition of award recipients at the Secretary's annual Honor Awards Ceremony as well as bureau-level award ceremonies. In 1998, the CFO/ASA conducted a survey of its employees which included the issue of incentive awards.

Department of Justice (DOJ). DOJ has not made any major changes in its incentive awards program since OPM's review in FY 1996. DOJ is currently in the process of updating its departmental order on incentive awards policy and procedures. They will eventually put departmental orders on their website. Each bureau within DOJ designs its own incentive awards program (monetary and nonmonetary) based on the departmental order. DOJ's incentive awards program includes public recognition of award recipients at an annual awards ceremony, along with local ceremonies in each bureau. There is no peer involvement in the nomination process. DOJ encourages bureaus to delink the awards and performance appraisal processes and to tie awards to the strategic plan. There have been no surveys of employees done from headquarters; however, some bureaus have done informal assessments.

Department of State. Since OPM's review in FY 1996, the Department of State has made a major change in its incentive awards program. The Department redesigned the program with the issuance of Foreign Affairs Manual, Volume 3, Chapter 4800 (Awards Program-General), effective January 1, 1997. The objectives of this redesign were the creation of new awards, which included the Time Off from Duty Award; expansion of the eligibility for Department-level awards to include Civil Service Employees; decentralization of approval authority for many awards; and reduction of paperwork to ease processing and lower administrative costs. The basic nomination form was revised to allow its use for most award nominations and to include space for fiscal data, thus eliminating the requirement for a separate form and voucher to process cash award payments. The Department's incentive awards program includes public recognition of award recipients at local ceremonies. The Department routinely publishes notices, telegrams and other articles about changes in its awards program. There is a working group that looks at awards processes on an annual basis to review and evaluate the effectiveness of the awards program.

Department of the Treasury. The Department of the Treasury has not had any major change in its incentive awards program since OPM's review in FY 1996. A new Award Program Planning Guide was published in 1998 and put on the agency's intranet. The Department has decentralized the awards program to its bureaus, so that there is less departmental oversight and bureaus can customize their programs. Some bureaus have incentive awards programs that include public recognition of award recipients at local ceremonies, and some bureaus allow peer involvement in the nomination process. Some bureau awards programs may suffer due to the delay in receiving funding allocations at the beginning of the fiscal year. Some bureaus have a link between their incentive awards program and the strategic plan, and there appears to be more reliance on special act and on-the-spot awards. No department-wide formal assessments or surveys have been completed recently regarding the incentive awards program.

Department of Veterans Affairs (VA). Since OPM's review in FY 1997, VA has made a major change in its incentive awards program. VA redesigned its awards program through VA Directive 5451 (Employee Recognition and Awards) and VA Handbook 5451 (Employee Recognition and Awards Procedures and Guides), both effective August 18, 1998. The objectives of this redesign effort were to simplify policy, increase flexibility, decentralize award authority, and promote the use of special act awards. VA no longer uses performance awards. VA's awards program emphasizes recognition of both individual and team accomplishments. VA's incentive awards program includes public recognition of award recipients at local ceremonies and peer involvement in nominations for some awards (time-off, on the spot, and nonmonetary). All incentive award directives, handbooks, training slides, and forms are on the VA website. Nomination forms can be filled out online and submitted for approval. No formal surveys or assessments have been completed recently.

Environmental Protection Agency (EPA). Since OPM's review in FY 1997, EPA has made a major change in its incentive awards program. EPA redesigned its awards program

through Recognition Policy and Procedures Manual, EPA-3130, effective November 25, 1997, and the PERFORMS Recognition Handbook, effective October 1998. The objectives of this effort were to complement the agency's new pass and fail performance management system, delink awards from performance appraisals, and give awards throughout the year. EPA did away with the Sustained Superior Performance (SSP) award and designed two new awards: the Q-Award (Quality Accomplishment Recognition Award), which is given to recognize exceptional, precedent setting or rare accomplishments of extraordinary scope, impact, or difficulty; and the S-Award (Superior Accomplishment Recognition Award), which is given to recognize a special act, service or achievement of a non-recurring nature, or for high quality performance of assigned duties. EPA's incentive award program includes public recognition of award recipients at local ceremonies and in newsletters, and peer involvement in the nomination process. Some local and regional offices have set up Awards Boards for review of nominations.

Equal Employment Opportunity Commission (EEOC). Since OPM's review in FY 1996, EEOC has made a major change in its incentive awards program. EEOC redesigned its awards program via Directive 501.008 (EEOC Awards Program), effective June 20, 1997. A major outcome of EEOC's redesign efforts was the delinkage of awards (except QSI's) from the rating of record. In addition, awards are now done through partnership, and the program includes time-off awards. Awards are still given out only one time per year, primarily due to the delay in receiving funding allocations at the beginning of the fiscal year. The awards budget is divided into two parts, with 50 percent going to the Local Partnership Councils at Headquarters and Field Offices, and 50 percent going to Office Directors for their award determinations. The use of the Local Partnership Councils to approve awards by consensus has taken some time to gain acceptance by managers. EEOC's incentive awards program includes public recognition of award recipients at local ceremonies and employee involvement in the nomination process, including self-nomination. In some offices, awards criteria are linked to the strategic plan. The awards directive itself and applicable forms are on the Local Area Network (LAN) for most of EEOC; however, some offices still do not have access to the network. The last survey of employee opinion was done two years ago.

Federal Emergency Management Agency (FEMA). Since OPM's review in FY 1996, FEMA has made a major change in its incentive awards program. FEMA redesigned its awards program through FEMA Manual 3600.1 (Reward and Recognition System) effective March 1997. The objectives of this redesign effort were to tie the criteria for receiving rewards to the agency's strategic plan and agency values, allow peer involvement in the nomination and evaluation process, and reward employees with nonmonetary as well as monetary awards. FEMA employees say they appreciate having input via the self-nomination and peer nomination processes. Public recognition of award recipients is done at all organizational levels, along with the Director's Award ceremony. Monetary awards are given out one time per year, due primarily to a delay in receiving funding at the beginning of the fiscal year. Time-off and nonmonetary awards are given throughout the year.

FEMA does periodic surveys and assessments of employee opinion, including opinions about awards, and a telephonic survey is scheduled for August 1999.

General Services Administration (GSA). GSA has made minor changes and additions to its incentive awards program since OPM's review in FY 1996. GSA continually emphasizes the use of incentive awards for contributions throughout the year and makes use of a web-based program called "Awards Manager." Awards Manager explains to managers, supervisors, and employees what current GSA awards are and how they are given; lists major awards sponsored by external sources for which GSA employees may apply; provides an "awards library" with links to GSA Orders and Instructional Letters that deal with the awards program; and provides an "awards toolbox" that helps managers, supervisors, and employee teams build their own local awards program. Supervisors can input an award via the "Fast Track Award System" and have a check to present within a few days. GSA is working on an enhanced Electronic Awards Program that will allow supervisors to input time-off awards, travel "gainsharing," and other cash awards via the intranet. GSA's incentive awards program includes public recognition of award recipients at local ceremonies and in nationwide newsletter articles, and there is peer involvement in some awards. There has been a strengthening of the link between awards and organizational goals by emphasizing the use of 10 agencywide measures for organizational performance. Based on these measures, specific dollar awards are given to employees. GSA has recently completed several employee surveys, and the staff are in the process of analyzing the results.

National Aeronautics and Space Administration (NASA). Since OPM's review in FY 1997, NASA implemented a redesign of its awards program via NPG 3451.1 (NASA Awards and Recognition Program), effective May 7, 1999. The major objectives of this redesign were to create some new awards and to give the 10 major centers within NASA the flexibility to establish their own incentive awards programs within budget allocations and guidelines. NASA's incentive awards program includes recognition of award recipients at local ceremonies, and most centers have peer involvement in the awards process. Headquarters and the centers have access to NASA websites for dissemination of award information and forms for submitting award nominations. NASA does an annual survey to assess how well its incentive awards program is doing.

National Archives and Records Administration (NARA). NARA has not made any major change in its incentive awards program since OPM's review in FY 1997. NARA is currently working in partnership with its union to overhaul the performance management and recognition programs. Among options that will be considered are public recognition of award winners, and changes in nonmonetary, on-the-spot, and time-off awards. Management recognizes that there is some employee dissatisfaction with the current awards program; however, it is hoped that the anticipated changes and some enhanced training for managers, supervisors, and employees will improve employees' opinions.

Securities and Exchange Commission (SEC). SEC has made several improvements in its incentive awards program since the OPM review in FY 1997. A memorandum was sent to Division Chiefs in 1998 encouraging all managers to recognize their employees timely and publicly and to consider the use of a variety of suggested awards. SEC has recently conducted a number of training sessions for supervisors and managers. SEC encourages managers to support the awards program by recognizing their employees throughout the year and by using nonmonetary awards as well as monetary awards. SEC's incentive awards program includes public recognition of honorary award recipients at an annual ceremony. For some honorary awards, nominations may be submitted by peers. According to the Incentive Awards Manager, the perception of some employees is that awards are rotated among employees since the budget is limited. QSI's are used frequently, and this may be attributed to the limited cash awards budget and the hope that QSI's will help retain employees in career fields that experience significant turnover. No formal assessments or surveys have been completed recently regarding the incentive awards program.