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HUMAN CAPITAL

Bonuses to Senior
Executives at the
Department of Veterans
Affairs

Statement of J. Christopher Mihm
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Highlights of [GAO-07-985T](#), testimony before Subcommittee on Oversight and Investigations, Committee on Veterans Affairs, House of Representatives

Why GAO Did This Study

Key practices of effective performance management for the Senior Executive Service (SES) include the linkage or “line of sight” between individual performance and organizational success, the importance of linking pay to individual and organizational performance, and the need to make meaningful distinctions in performance. GAO identified certain principles for executive pay plans that should be considered to attract and retain the quality and quantity of executive leadership necessary to address 21st century challenges, including that they be sensitive to hiring and retention trends; reflect knowledge, skills, and contributions; and be competitive. This testimony focuses on the Department of Veterans Affairs’ (VA) process for awarding bonuses to SES members, the amount and percentage of bonuses awarded for fiscal years 2004 through 2006 based on data reported by VA, and the Office of Personnel Management’s (OPM) and the Office of Management and Budget’s (OMB) roles in certifying federal agencies SES performance appraisal systems.

GAO analyzed VA’s policies and procedures for awarding bonuses and data provided by VA on the amount and percentages of bonuses and interviewed knowledgeable VA officials. Information on OPM’s and OMB’s certification process was based on our 2007 report on OPM’s capacity to lead and implement reform.

www.gao.gov/cgi-bin/getrpt?GAO-07-985T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

HUMAN CAPITAL

Bonuses to Senior Executives at the Department of Veterans Affairs

What GAO Found

VA requires that each senior executive have an executive performance plan or contract in place for the appraisal year that reflects measures that balance organization results with customer satisfaction, employee perspectives, and other appropriate measures. VA uses four performance review boards (PRB) to review and make recommendations on SES ratings, awards, and pay adjustments based on these performance plans. VA’s Secretary appoints members of three of the four boards on the basis of the position held within the agency, and consideration is given to those positions where the holder would have knowledge about the broadest group of executives. Members of the fourth board are appointed by VA’s Inspector General. VA’s PRBs vary in size, composition, and number of SES members considered for bonuses, and each PRB, within the scope of VA’s policies, develops its own procedures and criteria for making bonus recommendations. According to VA policy, bonuses are generally awarded only to those rated outstanding or excellent and who have demonstrated significant individual and organizational achievements during the appraisal period.

As for bonuses awarded, the table below shows VA SES member bonus amounts for fiscal years 2004 through 2006.

| Average Bonus Amount and Percentage Receiving Bonuses at VA among Career SES Members and by Headquarters and Field Locations, 2004-2006 | | | | | | |
|---|----------------|----------------------|----------------|----------------------|----------------|----------------------|
| | 2004 | | 2005 | | 2006 | |
| | Average amount | Percentage receiving | Average amount | Percentage receiving | Average amount | Percentage receiving |
| All | \$16,371 | 85.4 | \$16,713 | 79.7 | \$16,606 | 87.2 |
| Headquarters | 19,195 | 82.1 | 18,629 | 80.2 | 19,439 | 81.9 |
| Field | 15,089 | 87.0 | 15,761 | 79.4 | 15,268 | 90.0 |

Source: GAO analysis of VA data.

According to data reported by OPM, in fiscal year 2005, VA awarded higher bonus amounts to its career SES than any other cabinet-level department; however, according to OPM’s data, six other cabinet-level departments awarded bonuses to a higher percentage of their career SES.

OPM and OMB evaluate agencies’ SES performance appraisal systems against nine certification criteria jointly developed by the two agencies and determine that agencies merit full, provisional, or no certification. VA has been granted provisional certification in each of the years 2004 through 2006. Our review of VA’s requirements for SES performance plans as represented in both its 2006 submission and 2007 draft submission to OPM show that VA made changes to the requirements for its performance plans to reflect greater emphasis on measurable results.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to provide the Subcommittee with information on the Department of Veterans Affairs' (VA) process for providing Senior Executive Service (SES) performance awards (bonuses).¹ VA's mission is to serve America's veterans and their families. Through its three primary components, in fiscal year 2006, VA operated one of the largest health care systems that provided services to about 5 million patients, paid cash disability benefits to more than 3.5 million veterans and their survivors, and operated 125 national cemeteries in the United States.²

In our body of work on senior executive performance management, we have discussed how high-performing organizations understand that they need senior leaders who are accountable for results, drive continuous improvement, and stimulate and support efforts to integrate human capital approaches with organizational goals and related transformation issues. We have also identified key practices of effective performance management for the SES, which include the linkage or "line of sight" between individual performance and organizational success, the importance of linking pay to individual and organizational performance, and the need to make meaningful distinctions in performance.³ In 2006, we identified certain principles for executive pay plans that should be considered to attract and retain the quality and quantity of executive leadership necessary to address 21st century challenges, including that they be sensitive to hiring and retention trends; reflect responsibilities, knowledge, skills, and contributions; and be competitive.⁴

My comments today will focus on (1) VA's policies, procedures, and guidelines for evaluating and awarding SES member bonuses, including the composition and responsibility of VA's performance review boards (PRB), which recommend SES bonuses; (2) the number and amount of

¹For purposes of this testimony, we refer to SES performance awards as bonuses. Since only members of the SES with career appointments are eligible for bonuses, all references to bonuses apply only to SES members with career appointments.

²VA's three primary components are the Veterans Health Administration, the Veterans Benefits Administration, and the National Cemetery Administration.

³GAO, *Results-Oriented Cultures: Creating a Clear Linkage between Individual Performance and Organizational Success*, [GAO-03-488](#) (Washington, D.C.: Mar. 14, 2003).

⁴GAO, *Human Capital: Trends in Executive and Judicial Pay*, [GAO-06-708](#) (Washington, D.C.: June 21, 2006).

bonuses awarded for fiscal years 2004 through 2006 by VA headquarters and field locations and compared to the amount of bonuses given to SES members at other major cabinet-level departments; and (3) the Office of Personnel Management's (OPM) and the Office of Management and Budget's (OMB) roles in certifying VA's and other agencies' SES performance appraisal system. We analyzed VA's policies and procedures related to the awarding of SES member bonuses for 2005 through 2007 that were included in VA's 2005 and 2006 submissions and 2007 draft submission to OPM concerning VA's SES and senior-level employee performance appraisal system. We also interviewed knowledgeable officials in VA's Office of Human Resources and Administration. We analyzed data provided to us by VA on the amount and number of SES member bonuses for fiscal years 2004 through 2006 and comparable data from other cabinet-level departments as reported by OPM for fiscal years 2004 and 2005. The numbers we are presenting today are limited to SES member bonuses and do not include other types of SES member compensation. Information on OPM's and OMB's roles is based on our review of VA's senior performance appraisal system certification submissions and related correspondence and our prior work reviewing OPM's capacity to lead and implement reform.⁵ We conducted our work in May and June 2007 in accordance with generally accepted government auditing standards.

In summary, VA requires that each SES member have an executive performance plan or contract in place for the appraisal year that reflects measures that balance organization results with customer satisfaction, employee perspectives, and other appropriate measures. VA uses four PRBs that review and make recommendations on SES members' ratings, awards, and pay adjustments based on these performance plans. Members are appointed to the boards on the basis of the positions held, and consideration is given to those positions where the holder would have knowledge about the broadest group of executives. VA's PRBs vary in size, composition, and the number of SES members considered for bonuses, and each PRB, within the scope of VA's policies, develops its own procedures and criteria for making recommendations. According to VA policy, bonuses are generally awarded only to those rated outstanding or excellent and who have demonstrated significant individual and

⁵GAO, *Office of Personnel Management: Key Lessons Learned to Date for Strengthening Capacity to Lead and Implement Human Capital Reforms*, [GAO-07-90](#) (Washington, D.C.: Jan. 19, 2007).

organizational achievements during the appraisal period. In fiscal year 2006, VA awarded an average of \$16,606 in bonuses to 87 percent of its career SES members.⁶ At headquarters, 82 percent of career SES members received bonuses and 90 percent received bonuses in the field. Additionally, those in headquarters were awarded an average of about \$4,000 more in bonuses than the career SES members in its field locations. OPM and OMB evaluate agencies' SES and senior-level employee performance appraisal systems against nine certification criteria jointly developed by the two agencies. OPM also issues guidance to help agencies improve their systems and reviews submissions to ensure that they meet the criteria. In providing concurrence, OMB primarily considers measures of overall agency performance, such as agency President's Management Agenda results. Our review of VA's requirements for SES performance plans as represented in both its 2006 submission and 2007 draft submission to OPM shows that VA made changes to the requirements for its performance plans to reflect greater emphasis on measurable results.

We provided VA officials the opportunity to review the information contained in my statement. VA officials agreed that the facts presented accurately reflect VA's SES bonus process and results.

Background

In recent years, Congress has passed legislation designed to strengthen the linkage between SES performance and pay. Congress established a new performance-based pay system for the SES and permitted agencies with SES appraisal systems, which have been certified as making meaningful distinctions based on relative performance, to apply a higher maximum SES pay rate and a higher annual cap on total SES compensation.⁷ We have testified that such SES and senior-level employee performance-based pay systems serve as an important step for agencies in creating alignment or "line of sight" between executives' performance and organizational

⁶According to VA policy, Presidential Rank Award winners are not eligible for VA's senior executive bonuses in the same year they receive the award. Agencies can nominate senior executives for these awards, which recognize career senior executives who have demonstrated exceptional performance over an extended period of time. The OPM Director reviews agency nominations and recommends candidates to the President. These awards are either 20 or 35 percent of the recipient's base pay.

⁷See Section 1322 of the Chief Human Capital Officers Act of 2002, Title XIII of the Homeland Security Act of 2002, Pub. L. No. 107-296 (Nov. 25, 2002) and section 1125(a)(2) of the National Defense Authorization Act for Fiscal Year 2004, Pub. L. No. 108-136 (Nov. 24, 2003).

results.⁸ By 2004, an agency could apply a higher cap on SES pay and total compensation if OPM certifies and OMB concurs that the agency's performance management system, as designed and applied, aligns individual performance expectations with the mission and goals of the organization and makes meaningful distinctions in performance. Since 2004, VA has received approval to increase the cap on SES pay and total compensation, which includes bonuses.

By law, only career SES appointees are eligible for SES bonuses.⁹ As stated previously, agencies with certified senior performance appraisal systems are permitted higher caps on SES base pay and total compensation. With a certified system, for 2006, an agency was authorized to increase SES base pay to \$165,200 (Level II of the Executive Schedule) and total compensation to \$212,100 (the total annual compensation payable to the Vice President). Those agencies without certified systems for 2006 were limited to a cap of \$152,000 for base pay (Level III of the Executive Schedule) and \$183,500 (Level I of the Executive Schedule) for total compensation.¹⁰ SES performance bonuses are included in SES aggregate total compensation. Agencies are permitted to award bonuses from 5 to 20 percent of an executive's rate of basic pay from a pool that cannot exceed the greater of 10 percent of the aggregate rate of basic pay for the agency's career SES appointees for the year preceding, or 20 percent of the average annual rates of basic pay to career SES members for the year preceding.

VA's SES Performance Appraisal Process

VA requires that each SES member have an executive performance plan or contract in place for the appraisal year. According to VA's policy, the plan must reflect measures that balance organizational results with customer satisfaction, employee perspectives, and other appropriate measures. The plan is to be based on the duties and responsibilities established for the position and also reflect responsibility for accomplishment of agency goals and objectives, specifying the individual and organizational performance or results to be achieved for each element. Toward the end of the

⁸GAO, *Human Capital: Aligning Senior Executives' Performance with Organizational Results Is an Important Step Toward Governmentwide Transformation*, [GAO-06-1125T](#) (Washington, D.C.: Sept. 26, 2006).

⁹5 U.S.C. § 5384.

¹⁰In 2007, senior executives at agencies with certified systems can receive up to \$168,000 in base pay and \$215,700 in total compensation, at agencies with noncertified systems, up to \$154,600 in base pay and \$186,600 in total compensation.

appraisal period, each executive is to prepare a self-assessment relative to the job requirements in the approved performance plan, and his or her supervisor then rates the executive on each element and provides a summary rating. Specifically, according to VA's policy on the rating process, the rater is to assess the accomplishment of each established performance requirement, consider the impact of the individual requirement on overall performance of the element, and assign one achievement level for each element. The VA rating is a written record of the appraisal of each critical and other performance element and the assignment of a summary rating level by the rater. The summary of each SES member rating passes to the appropriate reviewing official (if applicable) and PRBs for consideration.

VA uses four PRBs to review and prepare recommendations on SES member ratings, awards, and pay adjustments: Veterans Affairs, Veterans Health Administration, Veterans Benefits Administration, and Office of Inspector General. The Veterans Affairs PRB has a dual role in VA in that it functions as a PRB for SES members who work for VA's central offices, such as the Office of the Assistant Secretary for Management and the Office of the Assistant Secretary for Policy and Planning, and those employed by the National Cemetery Administration. It also reviews the policies, procedures, and recommendations from the Veterans Health Administration and Veterans Benefits Administration PRBs.

The Secretary appoints members of three of the four PRBs on an annual basis; members of the Office of Inspector General PRB are appointed by the VA Inspector General. VA's PRBs must have three or more members appointed by the agency head or Inspector General for the Office of Inspector General PRB and can include all types of federal executives from within and outside the agency. As required by OPM, when appraising career appointees or recommending performance awards for career appointees, more than one-half of the PRB membership must be career SES appointees. Federal law prohibits PRB members from taking part in any PRB deliberations involving their own appraisals. Appointments to PRBs must also be published in the *Federal Register*.¹¹ According to a VA official in the Office of Human Resources and Administration, appointments are made on basis of the position held, and consideration is given to those positions where the holder would have knowledge about

¹¹5 U.S.C. § 4314. VA's PRB members were published in the *Federal Register* on November 2, 2006. 71 Fed. Reg. 64,609 (Nov. 2, 2006).

the broadest group of executives. Typically, the same VA positions are represented on the PRB each year, and there is no limit on the number of times a person can be appointed to a PRB.

VA's PRBs vary in size, composition, and number of SES members considered for bonuses. For example, in 2006, VA's Veterans Health Administration PRB was composed of 18 members and made recommendations on 139 SES members while its Veterans Benefits Administration PRB was composed of 7 members and made recommendations on 50 SES members. In 2006, six PRB members sat on multiple PRBs, and 1 member, the Deputy Chief of Staff, sat on three PRBs—the Veterans Affairs, Veterans Health Administration, and Veterans Benefits Administration PRBs. With the exception of the Office of Inspector General PRB, members of PRBs are all departmental employees, a practice that is generally consistent across cabinet-level departments. The Office of Inspector General PRB is composed of 3 external members—officials from other federal agencies' offices of inspector generals—which is generally consistent with PRBs for other federal offices of inspector general.

Under VA's policy, each PRB develops its own operating procedures for reviewing ratings and preparing recommendations. The Veterans Health Administration and Veterans Benefits Administration PRBs are to submit their procedures to the chairperson of the Veterans Affairs PRB for approval and are to include a summary of procedures used to ensure that PRB members do not participate in recommending performance ratings for themselves or their supervisors.

VA policy requires any SES member who wishes to be considered for a bonus to submit a two-page justification based on his or her performance plan addressing how individual accomplishments contribute towards organizational and departmental goals, as well as appropriate equal employment opportunity and President's Management Agenda accomplishments. While federal law and OPM regulations permit career SES members rated fully successful or higher to be awarded bonuses, VA's policy calls for bonuses to generally be awarded to only those rated outstanding or excellent and who have demonstrated significant individual and organizational achievements during the appraisal period. Beyond these policies, each PRB determines how it will make its recommendations. For example, a VA official from its Office of Human Resources and Administration told us that the Veterans Affairs PRB bases its bonus recommendations on an array of the numerical scores assigned based on the executive core qualifications. The information that each PRB

receives from its component units also varies. For example, the Veterans Benefits Administration PRB members receive ratings and recommended pay adjustments and bonus amounts from Veterans Benefits Administration units. VA policy requires formal minutes of all PRB meetings that are to be maintained for 5 years. The official from the Office of Human Resources and Administration told us that the minutes are limited to decisions made, such as the recommended bonus amount for each SES member considered, and generally do not capture the deliberative process leading to such decisions. Data provided by VA on one VA component—the Veterans Integrated Services Network—showed that of the bonuses proposed for fiscal year 2006, the Veterans Health Administration PRB decreased 45 and increased 9 of the bonuses initially proposed to that PRB and left the amounts of 64 unchanged.

At the conclusion of their deliberations, the Veterans Health Administration and Veterans Benefits Administration PRBs send their recommendations to the Under Secretary for Health and Under Secretary for Benefits, respectively, who, at their sole discretion, may modify the recommendations for SES members under their authority. No documentation of the rationale for modifications is required. The recommendations, as modified, are then forwarded to the chairperson of the Veterans Affairs PRB, who reviews the decisions for apparent anomalies, such as awarding bonuses that exceed maximum amounts. The chairperson of the Veterans Affairs PRB then forwards the recommendations from the Veterans Health Administration, Veterans Benefits Administration, and Veterans Affairs PRBs to the Secretary for approval.

The Secretary makes final determinations for SES member performance bonuses, with the exception of SES members in VA's Office of Inspector General. Recommendations from the Office of Inspector General PRB are sent directly to the VA Inspector General for final decision without review by the Veterans Affairs PRB or approval by the Secretary.¹² The Secretary has sole discretion in accepting or rejecting the recommendations of the PRBs. According to an official in the Office of Human Resources and Administration, the Secretary modified 1 recommendation in 2006, but a prior secretary modified over 30 in one year.

¹²In accordance with section 6(d) of the Inspector General Act of 1978, the VA Inspector General is responsible for making final bonus decisions for SES members within the Office of the Inspector General. See Pub. L. No. 95-452, codified at section 6(d) of Appendix 3 of Title 5 of the United States Code.

Recommendations for bonuses for members of the Veterans Affairs, Veterans Health Administration, and Veterans Benefits Administration PRBs are made after the PRBs conclude their work.¹³ The highest-level executives of each board rank the members of their respective PRBs and make recommendations, which are submitted to the Secretary. The Secretary determines any bonuses for the highest-level executives of the boards.

VA SES Bonuses

In 2006, VA's bonus pool was \$3,751,630, or 9 percent of the aggregate basic pay of its SES members in 2005. VA awarded an average of \$16,606 in bonuses in fiscal year 2006 to 87 percent of its career SES members.¹⁴ At headquarters, approximately 82 percent of career SES members received bonuses and 90 percent received bonuses in the field. Additionally, those in headquarters were awarded an average of about \$4,000 more in bonuses than the career SES members in field locations. Table 1 shows the average bonus amount, percentage receiving bonuses, and total rated at VA among career SES members and by headquarters and field locations for 2004 through 2006.¹⁵

¹³The three members of the Office of Inspector General PRB are not eligible for bonuses from VA because they are external to VA.

¹⁴According to VA policy, Presidential Rank Award winners are not eligible for VA's senior executive bonuses in the same year. Agencies can nominate senior executives for these awards, which recognize career senior executives who have demonstrated exceptional performance over an extended period of time. The OPM Director reviews agency nominations and recommends candidates to the President. These awards are either 20 or 35 percent of the recipient's base pay.

¹⁵For 2004 and 2005, our analysis of the average award amount and percentage receiving SES bonuses at VA based on data provided by VA differs from that reported by OPM.

Table 1: Average Bonus Amount, Percentage Receiving Bonuses, and Total Rated at VA among Career SES Members and by Headquarters and Field Locations, 2004-2006

| | 2004 | | | 2005 | | | 2006 | | |
|--------------|----------------|----------------------|--------------|----------------|----------------------|--------------|----------------|----------------------|--------------|
| | Average amount | Percentage receiving | Number rated | Average amount | Percentage receiving | Number rated | Average amount | Percentage receiving | Number rated |
| All | \$16,371 | 85.4 | 240 | \$16,713 | 79.7 | 261 | \$16,606 | 87.2 | 243 |
| Headquarters | 19,195 | 82.1 | 78 | 18,629 | 80.2 | 86 | 19,439 | 81.9 | 83 |
| Field | 15,089 | 87.0 | 162 | 15,761 | 79.4 | 175 | 15,268 | 90.0 | 160 |

Source: GAO analysis of VA data.

Note: We excluded career SES members who received Presidential Rank Awards from our calculations of average bonus amount, percent receiving bonuses and total rated because under VA's policy, those individuals were not considered for bonuses.

In 2005, according to OPM's Report on Senior Executive Pay for Performance for Fiscal Year 2005, the most recent report available, VA awarded higher average bonuses to its career SES than any other cabinet-level department. OPM data show that six other cabinet-level departments awarded bonuses to a higher percentage of their career SES members.¹⁶ When asked about possible reasons for VA's high average bonus award, a VA official in the Office of Human Resources and Administration cited the outstanding performance of VA's three organizations and the amount allocated to SES member bonuses.

OPM's and OMB's Roles in the VA Certification Process

Both OPM and OMB play a role in the review of agency's senior performance appraisal systems and have jointly developed certification criteria.¹⁷ OPM issues guidance each year to help agencies improve the development of their SES performance appraisal systems and also reviews agency certification submissions to ensure they meet specified criteria. To make its own determination, OMB examines agency's performance appraisal systems against the certification criteria, primarily considering measures of overall agency performance, such as an agency's results of a Program Assessment Rating Tool review or President's Management Agenda results.

¹⁶In fiscal years 2004 and 2005, the Department of Defense did not receive certification of its SES performance appraisal system for SES member.

¹⁷[GAO-07-90](#).

Specifically, to qualify for the use of SES pay flexibilities, OPM and OMB evaluate agencies' senior performance appraisal systems against nine certification criteria. These certification criteria are broad principles that position agencies to use their pay systems strategically to support the development of a stronger performance culture and the attainment of the agencies' missions, goals, and objectives. These are alignment, consultation, results, balance, assessments and guidelines, oversight, accountability, performance, and pay differentiation. See appendix I for a description of the certification criteria. There are two levels of performance appraisal system certification available to agencies: full and provisional. To receive full certification, the design of the systems must meet the nine certification criteria, and agencies must, in the judgment of OPM and with concurrence from OMB, provide documentation of prior performance ratings to demonstrate compliance with the criteria. Full certification lasts for 2 calendar years. Provisionally certified agencies are also granted the authority to apply higher caps on SES pay and total compensation just as those with fully certified systems are, even though agencies with provisional certification do not meet all nine of the certification criteria. Provisional certification lasts for 1 calendar year. According to OPM, the regulations were designed to cover initial implementation of the certification process. Now that all agencies have been under the system, all nine criteria must be met for an agency to be certified, even provisionally. According to OPM, for an agency to receive full certification in 2007, it must show that it has 2 years of making performance differentiation in ratings, pay, and award; and that the agency performance plans fully met all the criteria without requiring extensive revision.

After OMB concurrence, the Director of OPM certifies the agency's performance appraisal system and formally notifies the agency with a letter specifying provisional, full certification, or no certification.¹⁸ Of the 42 performance appraisal systems that were certified in 2006, only the Department of Labor's system received full certification. According to OPM's Web site, as of June 5, 2007, four agencies had received full certification of their senior performance appraisal systems—the Department of Commerce for 2007 through 2008, the Department of Labor for 2006 through 2007, the Federal Communications Commission for 2007

¹⁸Since congressional authorization for the new performance-based pay system went into effect, not all federal agencies have submitted their senior performance appraisal systems for review and not all agencies have received either full or provisional certification.

through 2008, and the Federal Energy Regulatory Commission for 2007 through 2008.¹⁹

If provisional or no certification is recommended, the letter from OPM provides the agency with specific areas of concern identified through the review process. These comments may direct an agency to focus more on making meaningful distinctions in performance or improving the type of performance measures used to evaluate SES members. For example, in OPM's 2007 certification guidance, the OPM Director asked agencies to place more emphasis on achieving measurable results, noting that many plans often fall short of identifying the measures used to determine whether results are achieved. In addition, OPM asked agencies to highlight in their 2007 certification requests any description or evidence of improvements made as a result of comments from OPM or OMB in response to the agency's 2006 certification submission.

VA received provisional certification for each of the years 2004 through 2006. In 2006, the letter from OPM to VA discussing its decision to grant the VA provisional certification rather than full certification, OPM stated that while the VA "system met certification criteria, clear alignment and measurable results must be evident in all plans across the entire agency." In addition, OPM said that it expected to see "well over 50 percent of an executive's performance plan focused on business results" and that VA "needs to ensure its 2007 executive performance plans weight business results appropriately." VA officials told us that the 2007 submission is in draft and they expect to submit it to OPM by the June 30, 2007, deadline.

Our preliminary review of VA's requirements for performance plans contained in its 2006 submission and 2007 draft submission show that VA made changes to the policy requirements for its performance plans to reflect a greater emphasis on measurable results. Specifically, the elements of the job requirement in the 2007 policies provides that each critical element and performance element will be weighted, which was not previously required in 2006. These performance requirements, according to the policy, will be described in terms of specific result(s) with metrics that the SES member must accomplish for the agency to achieve its annual performance goals and represent at least 60 percent of the overall weight of the performance plan. The policy further states that the expected

¹⁹All years are calendar years.

results should be specific, measurable, and aggressive yet achievable, results-oriented, and time-based.

Responding to concerns expressed by members of Congress and media reports about SES member bonuses, VA's Secretary recently requested that OPM review its performance management program for senior executives to ensure that its processes are consistent with governing statutes and OPM regulations and guidance. VA officials indicated that while OPM's review encompasses some of the same areas as those required for 2007 certification, VA requested a separate report from OPM.

We have stated that it is important for OPM to continue to carefully monitor the implementation of agencies' systems and the certification process with the goal of helping all agencies to receive full certification of their system. Requiring agencies with provisional certification to reapply annually rather than every 2 years helps to ensure continued progress in fully meeting congressional intent in authorizing the new performance-based pay system. VA has achieved provisional certification of its SES performance management system for 2004 through 2006.

Mr. Chairman and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to respond to any questions that you have.

Contacts and Acknowledgments

For further information regarding this statement, please contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony. Individuals making key contributions to this statement included George Stalcup, Director; Belva Martin, Assistant Director; Carole J. Cimitile; Karin Fangman; Tamara F. Stenzel; and Greg Wilmoth.

Appendix I: Senior Executive Service Performance Appraisal System Certification Criteria

| Summary of certification criteria for senior executive appraisal systems | |
|---|--|
| Alignment | Individual performance expectations must be linked to or derived from the agency's mission, strategic goals, program/policy objectives, and/or annual performance plan. |
| Consultation | Individual performance expectations are developed with senior employee involvement and must be communicated at the beginning of the appraisal cycle. |
| Results | Individual expectations describe performance that is measurable, demonstrable, or observable, focusing on organizational outputs and outcomes, policy/program objectives, milestones, and so forth. |
| Balance | Individual performance expectations must include measures of results, employee and customer/stakeholder satisfaction, and competencies or behaviors that contribute to outstanding performance. |
| Assessments and guidelines | The agency head or a designee provides assessments of the performance of the agency overall, as well as each of its major program and functional areas, such as reports of agency's goals and other program performance measures and indicators, and evaluation guidelines based, in part, upon those assessments to senior employees, and appropriate senior employee rating and reviewing officials. The guidance provided may not take the form of quantitative limitations on the number of ratings at any given rating level. |
| Oversight | The agency head or designee must certify that (1) the appraisal process makes meaningful distinctions based on relative performance; (2) results take into account, as appropriate, the agency's performance; and (3) pay adjustments and awards recognize individual/organizational performance. |
| Accountability | Senior employee ratings (as well as subordinate employees' performance expectations and ratings for those with supervisor responsibilities) appropriately reflect employees' performance expectations, relevant program performance measures, and other relevant factors. |
| Performance differentiation | Among other provisions, the agency must provide for at least one rating level above Fully Successful (must include an Outstanding level of performance), and in the application of those ratings, make meaningful distinctions among executives based on their relative performance. |
| Pay differentiation | The agency should be able to demonstrate that the largest pay adjustments, highest pay levels (base and performance awards), or both are provided to its highest performers, and that, overall, the distribution of pay rates in the SES rate range and pay adjustments reflects meaningful distinctions among executives based on their relative performance. |

Source: GAO analysis of OPM and OMB regulations.

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