

VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS



# Department of Veterans Affairs

*Audit of  
Recruitment,  
Relocation, and  
Retention Incentives*

January 5, 2017  
14-04578-371

# ACRONYMS

3R	Recruitment, Relocation, and Retention
CSEMO	Corporate Senior Executive Management Office
FY	Fiscal Year
HRMO	Human Resources Management Officer
NCA	National Cemetery Administration
OHRM	Office of Human Resources Management
OIG	Office of Inspector General
PAID	Personnel and Accounting Integrated Data
SES	Senior Executive Service
VA	Department of Veterans Affairs
VACO	Department of Veterans Affairs Central Office
VBA	Veterans Benefits Administration
VHA	Veterans Health Administration

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# Executive Summary

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## Why We Did This Audit

We assessed how effectively VA used recruitment, relocation, and retention (3R) incentives to develop and maintain its workforce in fiscal year (FY) 2014. We did this audit in response to a complaint made in July 2014 to the Office of Inspector General (OIG), alleging that VA was awarding its Senior Executive Service (SES) employees recruitment and relocation incentives without adequate justification, and retention incentives without determining the employee's intent to leave VA.

We expanded our audit beyond SES employees to include a random sample of Veterans Health Administration (VHA) and all VA Central Office (VACO) non-SES employees because previous OIG reviews identified weaknesses in their administration of retention incentives. In FY 2015, VA spent about \$67 million on 3R incentives, with VHA spending about \$66 million of this amount.

## What We Did

We conducted our audit work from September 2014 through July 2016. Our audit scope included all 32 SES and SES-equivalent employees who received at least one 3R incentive with an effective start date in FY 2014. We also included all 13 non-SES VACO employees who received at least one 3R incentive with an effective start date in FY 2014. Our review of SES employees and non-SES VACO employees included employees from VHA as well as the Veterans Benefits Administration (VBA). We also included in our scope a random sample of 499 non-SES VHA employees who received at least one 3R incentive with an effective start date in FY 2014. We used FY 2014 data because they allowed us to assess the allegation across an entire fiscal year following revisions to VA's 3R incentive policy in VA Handbook 5007/46.

We conducted visits to six randomly selected medical facility Human Resources offices, which supported the human resources operations of eight medical facilities, as well as one facility we judgmentally selected to test our analysis methods, and VA's Corporate Senior Executive Management Office (CSEMO). At each medical facility, we interviewed officials involved with the authorization and payment of 3R incentives, including Human Resources Management Officers (HRMOs), facility managers, and payroll employees. We also examined documentation supporting the authorization and approval of employees' 3R incentives. During our visits to CSEMO, we interviewed officials and examined CSEMO's files related to the awarding of 3R incentives to SES employees.

## Background

CSEMO conducts technical reviews of all incentives for VA's SES employees, Title 38 SES-equivalents, and senior-level employees submitted to the VA Secretary, or his designee, for approval. The executive director of CSEMO makes recommendations to the VA Secretary, or his designee, to approve or deny these 3R incentive requests. HRMOs within each VA Administration are responsible for administering 3R incentives locally. Medical Center Directors are the approving officials for recruitment and relocation incentives of up to 15 percent of salary for employees in non-centralized positions under their jurisdiction.

## What We Found

VA needs to improve controls over its use of 3R incentives to ensure these pay authorities are strategically and prudently used to assist in the recruitment and retention of highly qualified employees in hard-to-fill positions. We substantiated part of the allegation and found that CSEMO did not ensure the 2 SES recruitment and the 19 SES relocation incentives it reviewed were properly authorized before making recommendations to the former VA Chief of Staff to award these incentives in FY 2014. We did not substantiate the allegation that VA awarded SES employees retention incentives without determining the employee's intent to leave VA. We also found that VHA did not properly authorize 33 percent of the estimated 1,546 recruitment incentives and about 64 percent of the estimated 727 relocation incentives VHA awarded to non-SES employees in FY 2014.

Further, most of the retention incentives VA awarded to SES employees and non-SES VHA employees, and half of retention incentives VA awarded to non-SES VACO employees, lacked adequate workforce and succession plans. VA needs to improve succession planning to reduce its reliance on retention incentives. VA also needs to improve efforts to recoup payments when employees do not meet the terms of their recruitment or relocation service agreements.

VA's inadequate controls over its 3R incentives represent an estimated \$158.7 million in unsupported spending and about \$3.9 million in repayment liabilities projected for FYs 2015 through 2019.

## What We Recommended

We recommended the Assistant Secretary for Human Resources and Administration review and update procedures for Administrations to ensure recruitment and relocation incentives are justified and properly authorized, and develop internal controls for Administrations to monitor facilities' compliance with developing succession plans to reduce VA's reliance on retention incentives. We also recommended the capabilities of the HR Smart system be reassessed to reduce VA's incentive repayment liability risks.

## Agency Comments

The Assistant Secretary for Human Resources and Administration concurred with our recommendations and provided an acceptable action plan. Based on corrective actions already implemented, we consider Recommendations 2, 4, and 8 closed. We will follow up on the implementation of the corrective actions for the remaining recommendations.



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## INTRODUCTION

### **Objective**

We conducted this audit to assess how effectively VA used recruitment, relocation, and retention (3R) incentives to develop and maintain its workforce in fiscal year (FY) 2014. We initiated this audit in response to a complaint made to the Office of Inspector General (OIG) in July 2014 that VA awarded Senior Executive Service (SES) employees recruitment and relocation incentives without adequate justification and retention incentives without requiring employees to demonstrate their intent to leave VA.

We expanded our audit beyond SES employees to include a random sample of Veterans Health Administration (VHA) and all VA Central Office (VACO) non-SES employees because previous OIG reviews identified weaknesses in their administration of retention incentives. VHA accounted for at least 99 percent of VA's 3R incentive spending in FYs 2012 through 2015. VHA spent about \$66 million of the \$67 million VA spent in FY 2015 on 3R incentives.

### **Recruitment, Relocation, and Retention Incentives**

VA Handbook 5007/46, *Pay Administration*, establishes 3R incentive policy and procedures. The Office of Human Resources Management (OHRM) is responsible for the use and oversight of 3R incentives. The Corporate Senior Executive Management Office (CSEMO) is responsible for conducting technical reviews of SES 3R incentives to ensure compliance with VA Handbook 5007/46. There are several components to VA's 3R incentives.

- Recruitment incentives may be paid to full or part-time employees newly appointed to Federal service for positions that are likely hard to fill without an incentive.
- Relocation incentives may be paid to full-time Federal employees for positions that are likely hard to fill without an incentive.
- Retention incentives may be paid to full or part-time employees or a group of employees if they possess unusually high or unique qualifications and are likely to leave without an incentive.

## RESULTS AND RECOMMENDATIONS

### **Finding VA Needs To Improve Controls Over the Use of Recruitment, Relocation, and Retention Incentives**

VA needs to improve controls over its use of 3R incentives to ensure these pay authorities are strategically and prudently used to assist in the recruitment and retention of highly qualified employees in hard-to-fill positions. We substantiated part of the allegation and found that CSEMO did not ensure the 2 SES recruitment and the 19 SES relocation incentives they reviewed were properly authorized before making recommendations to the former VA Chief of Staff to award these incentives in FY 2014. We did not substantiate the allegation that VA awarded SES employees retention incentives without determining the employee's intent to leave VA. We also found that VHA did not properly authorize 33 percent of the estimated 1,546 recruitment incentives and about 64 percent of the estimated 727 relocation incentives VHA awarded to non-SES employees in FY 2014. Further, most of the retention incentives VA awarded to SES employees and non-SES VHA employees, and half of retention incentives VA awarded to non-SES VACO employees, lacked adequate workforce and succession plans.

We found the following specific issues with VA's use of 3R incentives.

#### **Recruitment Incentives**

- Of the estimated 1,546 recruitment incentives VHA awarded, about 33 percent were not properly authorized, representing about \$6.7 million in unsupported spending in FY 2014, or about \$33.3 million projected for FYs 2015 through 2019.
- The only two SES recruitment incentives awarded in FY 2014, totaling about \$97,000, were not properly authorized, representing about \$485,000 in unsupported spending projected for FYs 2015 through 2019.

#### **Relocation Incentives**

- Of the estimated 727 relocation incentives VHA awarded, about 64 percent were not properly authorized. In addition, seven of the nine relocation incentives awarded to non-SES VACO employees were not properly authorized. Incentives for VHA and non-SES VACO employees represented about \$8 million in unsupported spending in FY 2014, or about \$40.1 million projected for FYs 2015 through 2019.
- None of the 19 relocation incentives VA awarded to SES employees in FY 2014 were properly authorized, representing about \$728,000 in



unsupported spending in FY 2014, or about \$3.6 million projected for FYs 2015 through 2019.

### **Retention Incentives**

- Of the estimated 1,719 retention incentives VHA authorized, about 69 percent lacked adequate workforce and succession plans. In addition, two of the four retention incentives authorized for non-SES VACO employees lacked adequate workforce and succession plans. Incentives for VHA and non-SES VACO employees combined represented about \$16 million in unsupported spending in FY 2014, or about \$80.1 million projected for FYs 2015 through 2019.
- Ten of the 11 SES retention incentives VA awarded lacked adequate workforce and succession plans representing almost \$227,000 in unsupported spending in FY 2014, or about \$1.1 million projected for FYs 2015 through 2019.

### **Repayment Liabilities**

- VHA did not enforce repayment requirements for about 55 percent of the estimated 238 incentives for which employees did not fulfill their recruitment or relocation service agreements resulting in an employee repayment liability of approximately \$784,000 in FY 2014, or about \$3.9 million projected for FYs 2015 through 2019.

We identified the following factors affecting VA's management of 3R incentives.

- Ineffective oversight processes to ensure compliance with VA's 3R incentive requirements
- Inadequate oversight of how 3R incentives are used to address known and expected workforce gaps
- Ineffective procedures to recoup funds from individuals with outstanding recruitment and relocation incentive service obligations

As a result, VA has limited assurance that it is using 3R incentives effectively and strategically to acquire and retain talent. Considering that VA anticipates about 31 percent of its employees will be eligible for retirement by 2020, including about 58 percent of the SES workforce, it is imperative that VA take timely action to ensure its use of 3R incentives aligns with its immediate and long-term human capital goals. Without stronger internal controls, we projected that VA risks an estimated \$158.7 million in unsupported 3R incentive spending, in addition to about \$3.9 million in estimated repayment liabilities projected for FYs 2015 through 2019.

**VA Needs To Strengthen Controls Over Recruitment Incentives**

VHA and CSEMO most frequently failed to obtain authorization for recruitment incentives before the incentives were advertised on vacancy announcements, as required by VA Handbook 5007/46. The handbook requires that recruitment incentives are justified by the recommending official and authorized on VA Form 10016, *Justification and Authorization of Recruitment and Relocation Incentives* by the approving official for hard-to-fill positions before being included on vacancy announcements.

Of the estimated 1,546 recruitment incentives VHA approved in FY 2014, about 33 percent were not properly authorized— most frequently because the incentive was advertised on the vacancy announcement before being approved—resulting in an estimated \$6.7 million in unsupported spending in FY 2014, or an estimated \$33.3 million projected for FYs 2015 through 2019.

VA Handbook 5007/46 also requires that CSEMO ensures recruitment incentives are justified and approved prior to being advertised on SES vacancy announcements. However, we found CSEMO did not ensure that the two SES recruitment incentives approved in FY 2014, totaling about \$97,000, were justified and properly authorized on VA Form 10016 before being included on the vacancy announcements. For FYs 2015 through 2019, we projected VA will spend an estimated \$485,000 on SES recruitment incentives that are not properly justified and authorized. Pre-authorization is a necessary control to ensure a position is in fact hard to fill. In the absence of this control, VA has little assurance these incentives were used prudently to strategically recruit qualified candidates for hard-to-fill positions.

**VA Needs To Address Control Weaknesses Over Relocation Incentives**

VA Handbook 5007/46 states relocation incentives cannot be approved for positions that are filled through vacancy announcements unless the incentive was preauthorized and advertised on the vacancy announcement. In cases where a vacancy is not filled through an advertised vacancy announcement, a relocation incentive must be justified and authorized before the incentive is approved for the final selectee. Relocation incentives should be authorized only for hard-to-fill positions.

Of the estimated 727 relocation incentives VHA awarded in FY 2014, about 64 percent were not properly authorized. We also found that seven of the nine relocation incentives awarded to non-SES VACO employees were not properly authorized. We identified improper authorizations including relocation incentives that were not pre-authorized and were authorized after the final selectee was identified to fill a position, or even after an employee was brought on board. Improperly authorized relocation incentives for VHA and non-SES VACO employees combined represented about \$8 million in unsupported spending in FY 2014, or about \$40.1 million projected for FYs 2015 through 2019.

Furthermore, none of the 19 relocation incentives VA awarded to SES employees were properly authorized, representing about \$728,000 in unsupported spending in FY 2014, or about \$3.6 million projected for FYs 2015 through 2019. CSEMO did not ensure that SES relocation incentives were properly authorized before the incentive was included on the vacancy announcements or before the final selectee was identified in cases where a position was not filled through a vacancy announcement.

The following example illustrates an improperly authorized SES relocation incentive that was also not justified.

*Example*

*VA approved a \$51,316 relocation incentive, plus relocation expenses, to fill a Medical Center Director position at the VA Hudson Valley Health Care System in Montrose, NY, on October 2, 2013, about 2 months after the vacancy announcement closed on August 8, 2013. Selecting officials cited leadership turnover at the medical facility and a limited number of highly qualified applicants as justification for the incentive.*

*In addition to the improper authorization of this incentive, we also found this relocation incentive was based on inaccurate information and was not justified. Specifically, we determined the position was not hard to fill or subject to leadership turnover. In fact, the facility's leadership was stable with the previous Medical Center Director serving in the position for about 5 years. The position also was not vacant for an extended period of time, and was advertised before the then-Medical Center Director left for a position with the VA Connecticut Health Care System. Furthermore, VA's own actions limited the pool of applicants for this position. We found CSEMO removed a vacancy announcement advertising the position to all qualified U.S. citizens from the Federal jobs website, USAJobs.gov, after being posted for a day. CSEMO then advertised the vacancy for about 2 weeks to only VA SES employees. VA offered the job to the only VA SES employee who applied for the position.*

Using relocation incentives under these circumstances was improper because the relocation incentive was not authorized before being included on the job vacancy announcement. Importantly, CSEMO also took actions, such as reversing its recruitment strategy from originally advertising this position as open to all U.S. citizens to opening it only to VA SES employees, and posting the job announcement for only 2 weeks, that may have limited the pool of qualified applicants. These actions, more so than the location and nature of the position, may have contributed to the lack of applicants for this position. VA needs to strengthen its controls over relocation incentives to ensure these incentives are properly authorized in advance and used only in circumstances when a vacancy is demonstrably hard to fill.

Human Resources Management Officers (HRMOs) also failed to enforce VA's requirement that employees self-certify they moved to the position's new geographic location before authorizing relocation incentive payments. VA Handbook 5007/46 requires employees to establish a residence in the new geographic area and submit a written self-certification that includes the employee's new address to the Human Resources office in order to generate payment of the relocation incentive. VHA authorized relocation incentive payments before employees certified they moved to a new geographic location for about 41 percent of the estimated 727 relocation incentives it authorized. We also found that VA authorized relocation incentive payments for 18 of the 19 SES employees, and 7 of the 9 non-SES VACO employees before ensuring employees certified they moved to the new geographic location. Local HRMOs should have obtained relocation certifications from SES employees before authorizing relocation incentive payments.

OHRM needs to develop procedures and internal controls for Administrations to ensure compliance with VA's self-certification requirement. Without such additional steps, VA has little assurance that flexibilities, such as telework or virtual positions, are not inappropriately used by employees to avoid relocating.

***VA Needs To  
Improve  
Succession  
Planning To  
Reduce  
Retention  
Incentive Use***

While there are no limits on the number of years an employee can receive retention incentive payments, according to VA Handbook 5007/46, retention incentives are not intended to be used long-term. The handbook requires that workforce and succession plans detailing efforts to reduce or eliminate incentives be included as part of the retention incentive justification. For positions with documented long-term staffing difficulties, the workforce and succession plan must also describe how the continuation of retention incentives is a necessary flexibility to retain essential employees. Furthermore, approving officials must ensure workforce and succession plans are actively pursued and successfully administered as documented on the authorization for the retention incentive.

VHA employees were paid retention incentives an average of almost 4 years. Of the estimated 1,719 retention incentives VHA awarded, about 69 percent did not include adequate workforce and succession plans. We most frequently found in our sample that workforce and succession plans did not include details on efforts to reduce or eliminate the need for the incentive. We identified other deficiencies that included workforce and succession plans that did not describe how the continuation of the retention incentive was a necessary flexibility to retain essential employees in positions with documented long-term staffing difficulties. We also observed that facilities did not actively pursue and successfully administer workforce and succession plans as required by VA Handbook 5007/46.

For example, we identified a group retention incentive for registered nurses with a workforce and succession plan that cited efforts to seek a special

salary increase in order to eliminate the retention incentive. However, the facility HRMO reported 12 months after the approval of the group retention incentive that efforts had still not been initiated to pursue a special salary increase for this group of registered nurses. We determined this group retention incentive for registered nurses had been in place since 2012.

We also found that two of the four non-SES VACO employee retention incentives were approved without workforce and succession plans that detailed efforts to reduce or eliminate the need for the incentive. In total, VA spent an estimated \$16 million in FY 2014. For FYs 2015 through 2019, we projected VA will spend an estimated \$80.1 million on VHA and non-SES VACO retention incentives that lack adequate workforce and succession plans.

Almost all SES retention incentives (10 of 11) were approved without workforce and succession plans that detailed efforts to reduce or eliminate the need for the incentive. SES employees received retention incentives an average of over 5 years. We estimated SES retention incentives awarded without a workforce and succession plan detailing efforts to reduce or eliminate the incentive represented almost \$227,000 in unsupported spending in FY 2014, or an estimated \$1.1 million projected for FYs 2015 through 2019.

VA Handbook 5007/46 charges CSEMO with responsibility for advising management officials on the application of regulations and procedures, as well as conducting technical reviews to ensure the completeness of SES incentives. However, we found that a former acting executive director of CSEMO and the former deputy director of CSEMO made recommendations in a memo to the former VA Chief of Staff to approve 9 of 11 SES retention incentives despite noting for each incentive that VHA needed to develop workforce and succession plans.

We found no evidence in CSEMO's files that this former VA Chief of Staff raised concerns about VHA's lack of workforce and succession plans to eliminate these retention incentives before approving each incentive. While a former acting executive director and former Deputy Assistant Secretary of CSEMO did not effectively carry out their responsibilities when they advised the former VA Chief of Staff to approve these retention incentives without adequate workforce and succession plans, this former VA Chief of Staff also did not fulfill his responsibilities. Specifically, VA Handbook 5007/46 requires approving officials to administer SES retention incentives in a fiscally responsible manner and in accordance with handbook requirements.

VA needs to improve its monitoring of facilities' and CSEMO's compliance with its succession planning requirement. VA also needs to assess the extent to which it is feasible to limit the number of years that retention incentives can be paid to employees in certain occupations as a way to reduce its

long-term reliance on retention incentives and to better use the remaining 3R incentives to manage its workforce. Furthermore, VA needs to fully use its leadership development programs, such as the SES Development Program, to develop a pool of employees who are prepared for and have the qualifications to transition into SES positions.

**VHA's Use of 3R Incentives Did Not Fully Align With Its Occupational Staffing Shortage Ranking**

We evaluated the extent to which VHA's ranking of its top 10 mission-critical occupations that are the most challenging to recruit and retain corresponded to its use of 3R incentives in FY 2014.

Table 1 details VHA's ranking of mission-critical occupations for FY 2014.

**Table 1. VHA's Mission-Critical Occupations, FY 2014**

Rank	Occupational Description
1	Medical Officer
2	Nurse
3	Human Resources
4	Physical Therapist
5	Medical Technologist
6	Psychologist
7	Physician Assistant
8	Occupational Therapist
9	Pharmacist
10	Certified Registered Nurse Anesthetists

*Source: VHA analysis of FY 2014 Mission-Critical Occupations, May 27, 2014*

When assessing how frequently VHA awarded 3R incentives by occupation, we found medical officers and nurses were consistently ranked as VHA's top two occupations for 3R incentives. The frequency of VHA's use of recruitment incentives aligned most closely to its ranking of mission-critical occupations for FY 2014, although we observed some outliers. Police officers, for example, were not listed as one of VHA's top 10 mission-critical occupations for FY 2014, but ranked seventh in terms of how often VHA used recruitment incentives to fill police officer vacancies. Appendix D provides additional information on VHA's use of 3R incentives as compared with VHA's ranking of mission-critical occupations for FY 2014.

VHA's use of relocation and retention incentives, however, did not align as closely with its ranking of mission-critical occupations. For example, VHA more frequently used retention incentives to retain police officers than

employees in mission-critical occupations, such as certified registered nurse anesthetists. VHA also more frequently paid retention incentives to employees in General Health Science positions than to employees in mission-critical occupations such as pharmacists and physical therapists. VHA also used relocation incentives more frequently to fill general engineer and contracting positions than it did to fill medical technology, pharmacy, physician assistant, occupational therapist, and certified registered nurse anesthetist positions.

When we examined VHA's use of 3R incentives in FY 2014, we found it spent almost \$8 million on incentives for employees in positions, such as police officers, and general engineers, which were not included in its top 10 ranking of mission-critical occupations. VHA's ranking of mission-critical occupations could be used to monitor the extent to which facilities' use of 3R incentives align with VHA's prioritization of mission-critical occupations.

**VA Needs To  
Manage Its  
Repayment  
Liability Risks**

VHA did not enforce repayment requirements, as required by VA Handbook 5007/46, for about 55 percent of the estimated 238 incentives for which employees did not fulfill their recruitment or relocation service obligations. We estimated VHA's inaction resulted in an employee repayment liability of about \$784,000 in FY 2014, or an estimated \$3.9 million projected for FYs 2015 through 2019.

HRMOs told us VA's personnel system, the Personnel and Accounting Integrated Data (PAID) system, lacks capabilities to issue alerts when employees receiving incentives change jobs or locations, resign, or are fired. As a result, HRMOs may not be aware of unfulfilled incentive service agreements. This risk is especially pronounced when employees are paid incentives as lump sums at the start of their service agreement period. Paying incentives bi-weekly or as installments throughout employees' service agreement periods lessens VA's repayment liability risk. In these cases, employees simply stop receiving incentive payments when they leave VA's employment.

OHRM officials reported that, as of June 2016, PAID was replaced by a new personnel system, HR Smart. According to OHRM officials, HR Smart will have increased capabilities, such as automated service obligation alerts, to ensure VA initiates repayments for unmet obligations. We observed during a demonstration of the HR Smart system that these alerts did not specify if the service obligation was related to a specific benefit, such as a 3R incentive or a student loan repayment benefit. As a result, Human Resources personnel will have to manually review an employee's HR Smart record to determine what kind of service obligation prompted the alert. We also observed that Human Resources personnel can override these alerts without supervisory approval.



OHRM needs to ensure that Administrations develop and implement effective procedures to recoup funds from individuals with unfulfilled incentive service obligations. OHRM also needs to reexamine HR Smart's capabilities to determine the extent to which it is possible to develop an automated alert that notifies Human Resources personnel when employees have outstanding 3R incentive service obligations. By doing so, HR Smart alerts could help reduce VA's repayment liability risk. HR Smart controls could also be enhanced by requiring supervisory approvals of alert overrides.

**Conclusion**

While 3R incentives can help VA strategically manage its workforce, VA needs to ensure greater accountability over how it uses these incentives to support its mission. VA needs to improve its controls to address the weaknesses we identified in its oversight of 3R incentives. Without stronger internal controls, we projected VA risks an estimated \$158.7 million in unsupported 3R incentive spending, in addition to an estimated \$3.9 million in repayment liabilities, for FYs 2015 through 2019. Improved succession planning can strengthen VA's current and future organizational capacity and align its use of 3R incentives to address its workforce needs strategically.

**Recommendations**

1. We recommended the Assistant Secretary for Human Resources and Administration review and update procedures and add internal controls for Administrations to ensure recruitment and relocation incentives are fully justified and authorized before being included on vacancy announcements for hard-to-fill positions or before the final selectee is identified in cases where a position is not filled through a vacancy announcement.
2. We recommended the Assistant Secretary for Human Resources and Administration review and update procedures and add internal controls for the Corporate Senior Executive Management Office to ensure Senior Executive Service recruitment and relocation incentives are fully justified and authorized before being included on vacancy announcements for hard-to-fill positions or before the final selectee is identified in cases where a position is not filled through a vacancy announcement.
3. We recommended the Assistant Secretary for Human Resources and Administration review and update procedures and add internal controls for Administrations to monitor compliance with its employee certification requirement before relocation incentives are authorized for payment.
4. We recommended the Assistant Secretary for Human Resources and Administration review and update procedures and add internal controls to monitor the Corporate Senior Executive Management Office's



compliance with the employee certification requirement before Senior Executive Service relocation incentives are authorized for payment.

5. We recommended the Assistant Secretary for Human Resources and Administration review and update procedures and add internal controls for Administrations to monitor facilities' compliance with developing workforce and succession plans to reduce the risk of long-term reliance on retention incentives.
6. We recommended the Assistant Secretary for Human Resources and Administration review and update procedures and add internal controls to monitor the Corporate Senior Executive Management Office's compliance with developing workforce and succession plans to reduce the risk of long-term reliance on retention incentives for Senior Executives.
7. We recommended the Assistant Secretary for Human Resources and Administration monitor the Corporate Senior Executive Management Office to ensure its technical review and recommendations to the VA Chief of Staff regarding Senior Executive Service incentives are prudent and in full compliance with VA Handbook 5007/46.
8. We recommended the Assistant Secretary for Human Resources and Administration assess the feasibility of limiting the number of consecutive years employees in specific occupations or groups of employees in specific occupations can receive retention incentive payments.
9. We recommended the Assistant Secretary for Human Resources and Administration review and update procedures and add internal controls for Administrations to monitor facilities' compliance with VA Handbook 5007/46 requirements to initiate debt collection from individuals who did not fulfill their recruitment, relocation, or retention incentive service obligations.
10. We recommended the Assistant Secretary for Human Resources and Administration examine the capabilities of the HR Smart personnel system to determine the extent to which it is possible to develop an incentive-specific automated alert that notifies Human Resources personnel when employees have outstanding recruitment, relocation, or retention incentive service obligations.

**Management  
Comments**

The Assistant Secretary for Human Resources and Administration concurred with our recommendations and already took action to implement some of these recommendations. Specifically, the Assistant Secretary reported that guidance is being developed to update procedures and add internal controls for Administrations to ensure recruitment and relocation incentives are fully

justified and authorized before being included on vacancy announcements for hard-to-fill positions, or before the final selectee is identified in cases where a position is not filled through a vacancy announcement. The Assistant Secretary reported that CSEMO established a single Personnel Office ID that centralizes the processing of SES personnel actions under CSEMO to ensure SES recruitment and relocation incentives are fully justified and authorized before being included on vacancy announcements for hard-to-fill positions, or before the final selectee is identified in cases where a position is not filled through a vacancy announcement. This centralization also provides CSEMO with a mechanism to ensure relocation incentive payments are not being made without proper certifications from SES employees.

VA Handbook 5007, Part IV, Chapters 2 and 3 will be revised to include additional procedures and internal controls for Administrations to monitor facilities' compliance with the employee certification requirement before relocation incentives are authorized for payment. The handbook will also be revised with additional procedures to include an annual certification by authorizing officials that retention incentives include workforce and succession plans to reduce the long-term reliance on retention incentives. The Assistant Secretary also reported that CSEMO will initiate an SES Talent Management program to ensure appropriate workforce plans are in place to reduce the risk of long-term reliance on retention incentives for SES employees.

The Assistant Secretary reported that CSEMO will implement procedures to ensure that each factor required to be considered to justify a 3R incentive for an SES employee is documented before approval recommendations are made to the VA Chief of Staff. The Assistant Secretary also reported that she assessed the feasibility of limiting the number of consecutive years employees in specific occupations or groups of employees in specific occupations can receive retention incentive payments, and determined that limiting retention incentives in such a manner would negatively affect VA's ability to retain highly qualified employees who are likely to leave Federal service.

VA Handbook 5007, Part IV, Chapter 2 will be revised to update procedures and add internal controls for Administrations to monitor facilities' compliance with requirements to initiate debt collection from individuals who did not fulfill their 3R incentive service obligations. This will be done by requiring that all requests for repayment waivers are technically reviewed by the Office of Human Resources Management and submitted to the Assistant Secretary for Human Resources and Administration for approval. HRMOs will be required to annually certify that action was taken to initiate debt collection from individuals who did not fulfill their service obligations. The Assistant Secretary also reported taking action to ensure that HR Smart

will have the capacity to alert Human Resources personnel when employees have outstanding 3R service obligations.

*OIG Response*

The Assistant Secretary for Human Resources and Administration's planned corrective actions are responsive. Based on the corrective actions already implemented in response to Recommendations 2, 4, and 8, we consider these recommendations closed. We will monitor the Office of Human Resources and Administration's implementation of the remaining recommendations until all proposed actions are completed. Appendix F provides the full text of the Assistant Secretary for Human Resources and Administration's comments.

## Appendix A Background

### **Recruitment and Relocation Incentives**

VA Handbook 5007/46 requires that VA Form 10016, *Justification and Authorization of Recruitment and Relocation Incentives*, be used to document the justification, authorization, and approval of all recruitment and relocation incentives. Section A of the form must be approved prior to advertising the incentive on a vacancy announcement and should detail factors justifying the need for a recruitment or relocation incentive to include the following.

- 1) Usual salaries paid outside the Federal Government for similar positions
- 2) Special or unique competencies required for the position
- 3) Efforts to use non-pay authorities, such as flexible work schedules
- 4) The desirability of the position's duties, work, organizational environment, or geographic location
- 5) Employment trends and labor-market factors
- 6) The availability and quality of candidates with the competencies required for the position
- 7) Recent turnover in the position or similar positions

The VA Secretary, or his designee, is the approving official for employees occupying positions centralized to that office, including SES employees, Title 38 SES-equivalents,<sup>1</sup> and senior-level or scientific and professional positions. CSEMO conducts technical reviews of all incentives for VA's SES employees, Title 38 SES-equivalents, and senior-level employees submitted to the VA Secretary, or his designee, for approval. The executive director of CSEMO makes recommendations to the VA Secretary, or his designee, to approve or deny these 3R incentive requests. HRMOs within each VA Administration are responsible for administering 3R incentives locally. Medical Center Directors are the approving officials for recruitment and relocation incentives of up to 15 percent of salary for employees in non-centralized positions under their jurisdiction.

Selecting officials must justify the final selectee's special skills or qualifications, the basis for determining the incentive amount, and the length of the service agreement period in Section B of VA Form 10016.

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<sup>1</sup>Title 38 SES-equivalent employees are employees, such as dentists and doctors, who, while appointed under the authorities contained in 38 U.S.C., chapters 73 and 74, perform SES duties such as directing the work of an organizational unit; being accountable for the success of one or more specific programs or projects; or otherwise exercising important policy-making, policy-determining, or other executive functions.

**Retention  
Incentives**

Retention incentives must be justified, authorized, approved, and annually recertified on VA Form 10017, *Authorization and Review of Retention Incentive*. In addition to the factors detailed in the section above, retention incentives must be justified by considering the extent to which an employee's or group of employees' departure would affect VA's ability to carry out mission-essential functions or activities, and other supporting factors. A narrative explanation of an organization's workforce and succession plan to eventually eliminate or reduce the need for retention incentives must be fully documented on VA Form 10017. For positions with documented long-term staffing difficulties, the plan must describe how the continuation of retention incentives is a necessary flexibility to retain essential employees. VA Handbook 5007/46 also requires that approving officials must ensure workforce and succession plans are actively pursued and successfully administered as documented on VA Form 10017.

Recommending officials must also certify and provide written narrative and other evidence that they are reasonably convinced an employee or group of employees is likely to leave Federal service in the absence of a retention incentive. Determining that an employee or group of employees is likely to leave Federal service in the absence of a retention incentive may be determined by the following factors.

- An employee has a bona fide job offer or a significant number of a group of employees have bona fide job offers.
- Confirmation that the employee submitted a retirement application or a resignation letter to the Human Resources office.

Employees must have a performance rating of at least Fully Successful to be eligible for a retention incentive. New employees must serve at least 90 days in their position before being eligible for a group retention incentive.

**3R Incentive  
Spending**

VA's total spending on 3R incentives declined from FY 2012 through FY 2015. VA spent a total of about \$115 million on 3R incentives in FY 2012, and about \$67 million in FY 2015. During this time period, VHA consistently accounted for the vast majority of 3R incentive spending.

Table 2 details VA's total 3R incentive spending as well as spending by VHA, the Veterans Benefits Administration (VBA), the National Cemetery Administration (NCA), and VACO for FYs 2012 through 2015.

**Table 2. VA's 3R Spending by Administration and Offices  
FY 2012 Through FY 2015**  
(Dollars in millions)

<b>Fiscal Year</b>	<b>VHA (Percentage of Total VA 3R Spending)</b>	<b>VBA (Percentage of Total VA 3R Spending)</b>	<b>NCA (Percentage of Total VA 3R Spending)</b>	<b>VACO Offices (Percentage of Total VA3R Spending)</b>	<b>All VA</b>
2012	\$114 (99%)	\$0.2 (0%)	\$0.0 (0%)	\$0.6 (1%)	\$115
2013	\$80 (99%)	\$0.2 (0%)	\$0 (0%)	\$0.5 (1%)	\$81
2014	\$65 (99%)	\$0.2 (0%)	\$0.0 (0%)	\$0.3 (1%)	\$66
2015	\$66 (99%)	\$0.2 (0%)	\$0.0 (0%)	\$0.4 (1%)	\$67

Source: OIG analysis of PAID data extract for FYs 2012–2015

**Previous OIG Reports**

In 2011, we issued two reports examining the use of retention incentives for VHA and VACO employees—*Review of Retention Incentive Payments at the VA Medical Center, Providence, Rhode Island* (Report No.10-01937-68, January 20, 2011) and *Audit of Retention Incentives for Veterans Health Administration and VA Central Office Employees* (Report No. 10-02887-30, November 14, 2011). We reported VHA and VA lacked adequate controls to ensure retention incentives were justified and in compliance with VA's retention incentive policy. We made recommendations to the Under Secretary for Health, the Assistant Secretary for Human Resources and Administration, and the Deputy Assistant Secretary for CSEMO to strengthen controls over retention incentives by ensuring compliance with VA's retention incentive policy. We also recommended VA conduct a 100 percent review of then-existing retention incentives for VHA and VACO employees to ensure these incentives were justified and properly authorized.

## Appendix B Scope and Methodology

### Scope

We conducted our audit work from September 2014 through July 2016. Our audit scope included all SES and SES-equivalent employees who received at least one 3R incentive with an effective start date in FY 2014. We also included all non-SES VACO employees who received at least one 3R incentive with an effective start date in FY 2014. Our review of SES employees and non-SES VACO employees included employees from VHA as well as VBA. We also completed a random sample of non-SES VHA employees who received at least one 3R incentive with an effective start date in FY 2014. Data from FY 2014 represented the most current data available at the start of our audit, which allowed us to assess the allegation across an entire fiscal year following revisions to VA's 3R incentive policy in VA Handbook 5007/46.<sup>2</sup>

### Methodology

We examined criteria relevant to VA's use of 3R incentives, including VA Handbook 5007/46. We interviewed officials from VHA, CSEMO, and the Office of Human Resources Management (OHRM) involved with 3R incentives to understand the approval and authorization process, as well as how these incentives are input into PAID. We also interviewed OHRM officials to learn more about VA's internal controls related to the awarding and oversight of 3R incentives, as well as officials from the U.S. Office of Personnel Management to obtain information about Federal regulations relevant to VA's use of 3R incentives.

### OIG Data Collection Instrument

We developed an electronic data collection instrument that captured the elements required by VA Handbook 5007/46 to be documented and evaluated by officials approving a 3R incentive. We used this tool to analyze the 3R incentives VA awarded to employees in our scope to assess the extent to which each incentive was justified and proper.

Using a data collection instrument may introduce errors, such as non-sampling errors. These errors may include how a question or data element in the data collection instrument is interpreted. We took steps in the development of the data collection instrument to minimize such errors. For example, we included detailed instructions in the data collection instrument to clarify elements required by VA Handbook 5007/46 to support the awarding of 3R incentives. We also incorporated first- and second-level reviews of our analysis of employees' incentive awards.

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<sup>2</sup> Our scope captured VA's compliance with revisions to VA Handbook 5007/46, which were effective April 22, 2013. VA's personnel system, PAID, does not capture the 3R incentive approval date and only the effective start date of the incentive service agreement period.

*Site Visits*

We conducted visits to six randomly selected medical facility Human Resources offices, which supported the human resources operations of eight medical facilities, as well as one facility we judgmentally selected to test our analysis methods and VA's CSEMO. At each medical facility, we interviewed officials involved with the authorization and payment of 3R incentives, including HRMOs, facility managers, and payroll employees. We also examined documentation supporting the authorization and approval of employees' 3R incentives. During our visits to CSEMO, we interviewed officials and examined CSEMO's files related to the awarding of 3R incentives to 32 SES employees. Table 3 lists the locations of our visits.

**Table 3. OIG Locations Visited**

Facility	Location
VA Connecticut Healthcare System	West Haven, CT
VA Corporate Senior Executive Management Office	Washington, DC
Bay Pines VA Healthcare System*	Bay Pines, FL
Orlando VA Medical Center	Orlando, FL
Louis Stokes Cleveland VA Medical Center	Cleveland, OH
VA Portland Health Care System*	Portland, OR
VA Pittsburgh Healthcare System	Pittsburgh, PA
VA Puget Sound Health Care System	Seattle, WA

*Source: VA OIG*

\*Human Resources Offices at these medical facilities supported human resources operations for an additional medical facility.

*HRMO Survey*

In addition to the medical facilities we visited, we surveyed HRMOs from 26 randomly selected medical facilities and 10 judgmentally selected medical facilities to obtain supporting documentation related to the authorization and approval of 3R incentives. We analyzed supporting information obtained directly from medical facilities' incentive files, including VA Forms 10016 and 10017, Standard Form 50, performance appraisals, service agreements, and employee relocation self-certifications. Appendix C provides details on our statistical sampling methodology and projections.

We also surveyed HRMOs servicing non-SES VACO employees across VA to obtain supporting documentation related to the authorization and approval of 3R incentives for 13 non-SES VACO employees.



**Ranking of 3R  
Incentives by  
VHA  
Occupations**

We obtained a listing of VHA's mission-critical occupations for FY 2014 from its Office of Workforce Management and Consulting. We then obtained a PAID extract of VHA employees and their occupational series who received at least one 3R incentive payment during FY 2014. We analyzed this PAID data extract and ranked the occupational series by the frequency of recruitment, relocation, and retention incentive awards and by the total amount paid for each type of incentive. We then assessed the extent to which the frequency of VHA's 3R incentive awards for specific occupations aligned with its ranking of mission-critical occupations in FY 2014. We did not assess the extent to which pay flexibilities, such as special salary rates, that facilities may use to locally increase the salaries of employees in some occupations accounted for the frequency of VHA's use of 3R incentives for occupations on its mission-critical occupation listing for FY 2014. Appendix D provides further information on the results of this assessment.

**Fraud  
Assessment**

We assessed the risk that fraud, violations of legal and regulatory requirements, and abuse could occur during this audit. Alert to fraud indicators, we exercised due diligence by taking the following actions:

- Coordinating with the OIG's Office of Investigations to determine if there were any ongoing or previous cases involving VA's use of 3R incentives
- Conducting steps to review program operations for potential fraud

We did not identify fraud during this audit.

**Data  
Reliability**

We assessed the accuracy of data on employees in receipt of a 3R incentive from PAID. We assessed the reliability of the universe of incentives in PAID to determine if it was sufficient for the purpose of selecting a random sample. For example, we examined start and end dates of incentive service agreement periods captured in PAID against supporting documentation, including incentive authorizations and service agreements, for incorrect or incomplete information. Based on our reliability assessment, we concluded these data were appropriate and sufficient for purposes of our audit.

**Government  
Standards**

Our assessment of internal controls focused on those controls relating to our audit objective. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## **Appendix C Statistical Sampling Methodology**

### ***Sampling Methodology***

We obtained a listing from PAID of medical facilities that awarded employees at least one 3R incentive with an effective start date from July 1, 2013 through September 30, 2014. From this list, we randomly selected 34 medical facilities. We disseminated an electronic survey to HRMOs at each medical facility to obtain supporting documentation related to the justification, authorization, and approval of each 3R incentive. To determine if VHA's 3R incentives for non-SES employees were justified and proper in FY 2014, we analyzed the incentive documentation for employees whose incentive had an effective start date from October 1, 2013 through September 30, 2014. Because our results are based on a review of 499-statistically sampled non-SES VHA employees and 34 medical facilities, we projected our findings from this sample onto the estimated 4,000 incentives that were awarded in FY 2014. We used FY 2014 data because they were the most current full-year data available at the start of our audit.

### ***Population***

Data obtained from PAID identified 132 medical facilities that awarded 3R incentives to at least one non-SES employee with an effective start date from July 1, 2013 through September 30, 2014. This universe consisted of an estimated 1,500 recruitment incentives, 730 relocation incentives, and 1,700 retention incentives.

### ***Weights***

We calculated estimates in this report using weighted sample data. Sampling weights are computed by taking the product of the inverse of the probabilities of selection at each stage of sampling. We used these weights to compute universe estimates from the sample findings.

### ***Projections and Margins of Error***

We employed WesVar software to calculate the weighted population estimates and associated sampling errors. WesVar uses a replication methodology to calculate margins of error and confidence intervals that correctly account for the complexity of the sample design.

The margins of error and confidence intervals are indicators of the precision of the estimates. If we repeated this audit with multiple samples, the confidence intervals would differ for each sample, but would include the true universe value 90 percent of the time. Tables 4, 5, 6, and 7, on the following pages, detail the audit projections related to the 3R incentives that VHA awarded to non-SES employees within our scope.

**Table 4. Recruitment Incentive Projections**  
(Dollars in millions)

Category	Estimate	Margin of Error	90% Confidence Interval Lower Limit	90% Confidence Interval Upper Limit
Total Number of Incentives	1,546	158	1,388	1,704
Count of Incentives Not Properly Authorized	509	109	400	617
Percentage of Incentives Not Properly Authorized	32.9%	6.2%	26.7%	39.1%
Value of Incentives Not Properly Authorized	\$6.7	\$1.8	\$4.8	\$8.5

Source: *OIG analysis of a random sample of 3R incentives with effective start dates in FY 2014*

Note: Some results are adjusted to reflect sample findings.

**Table 5. Relocation Incentive Projections**  
(Dollars in millions)

Category	Estimate	Margin of Error	90% Confidence Interval Lower Limit	90% Confidence Interval Upper Limit
Total Number of Incentives	727	118	609	845
Count of Incentives Not Properly Authorized	467	98	369	565
Percentage of Incentives Not Properly Authorized	64.3%	8.3%	56.0%	72.6%
Value of Incentives Not Properly Authorized	\$7.9	\$3.0	\$4.9	\$10.9
Count of Incentives Missing Relocation Self-Certification	297	77	220	373
Percentage of Incentives Missing Relocation Self-Certification	41.0%	8.0%	32.4%	49.2%

Source: *OIG analysis of a random sample of 3R incentives with effective start dates in FY 2014*

Note: Some results are adjusted to reflect sample findings.

**Table 6. Retention Incentive Projections**  
(Dollars in millions)

Category	Estimate	Margin of Error	90% Confidence Interval Lower Limit	90% Confidence Interval Upper Limit
Total Number of Incentives	1,719	136	1,583	1,856
Count of Incentives With an Inadequate Succession Plan	1,181	122	1,059	1,302
Percentage of Incentives With an Inadequate Succession Plan	68.7%	5.0%	63.7%	73.7%
Value of Incentives With an Inadequate Succession Plan	\$16.0	\$3.1	\$12.9	\$19.0

Source: OIG analysis of a random sample of 3R incentives with effective start dates in FY 2014

Note: Some results are adjusted to reflect sample findings.

**Table 7. Relocation and Recruitment Incentive Repayment Projections**  
(Dollars in thousands)

Category	Estimate	Margin of Error	90% Confidence Interval Lower Limit	90% Confidence Interval Upper Limit
Total Number of Incentives	238	82	156	320
Count of Incentives for Which Repayment Was Not Initiated	131	58	73	189
Percentage of Incentives for Which Repayment Was Not Initiated	54.9%	18.0%	36.6%	73.2%
Value of Repayment Liability	\$783.9	\$411.1	\$372.8	\$1,195.0

Source: OIG analysis of a random sample of 3R incentives with effective start dates in FY 2014

Note: Some results are adjusted to reflect sample findings.

## Appendix D Ranking of 3R Incentives by VHA Mission-Critical Occupations, FY 2014

Tables 8, 9, and 10 show the extent to which VHA's ranking of the top 10 mission-critical occupations align with its use of 3R incentives to recruit, relocate, and retain employees by occupation in FY 2014. The tables compare VHA's top 10 ranking with actual 3R incentive use based on frequency of incentive awards and the total amount paid by each type of incentive.

**Table 8. VHA Recruitment Incentives by Frequency and Total Amount Paid and Ranked by Occupation**

VHA Rank	Occupational Description	Rank by Total Incentive Payment	Total Incentive Payment	Rank by Award Frequency	Award Frequency	Average Incentive Award
1	Medical Officer	1	\$14,915,656	1	907	\$16,445
2	Nurse	2	\$2,204,770	2	339	\$6,504
3	Human Resources	12	\$103,199	16	11	\$9,382
4	Physical Therapist	6	\$285,362	5	37	\$7,712
5	Medical Technologist	13	\$99,315	8	22	\$4,514
6	Psychologist	3	\$585,322	3	70	\$8,362
7	Physician Assistant	4	\$569,430	4	59	\$9,651
8	Occupational Therapist	10	\$119,092	14	14	\$8,507
9	Pharmacist	8	\$168,434	12	16	\$10,527
10	Certified Registered Nurse Anesthetist	5	\$487,270	6	31	\$15,718

*Source: VHA FY 2014 Mission-Critical Occupational Staff Shortages, May 27, 2014; and OIG analysis of PAID extract of 3R incentives with an effective start date in FY 2014*

**Table 9. VHA Relocation Incentives by Frequency and Total Amount Paid Ranked by Occupation**

VHA Rank	Occupational Description	Rank by Total Incentive Payment	Total Incentive Payment	Rank by Award Frequency	Award Frequency	Average Incentive Award
1	Medical Officer	1	\$3,739,215	1	185	\$20,212
2	Nurse	2	\$1,269,086	2	107	\$11,861
3	Human Resources	4	\$1,052,917	3	99	\$10,636
4	Physical Therapist	32	\$33,000	26	5	\$6,600
5	Medical Technologist	23	\$58,231	15	10	\$5,823
6	Psychologist	9	\$197,870	8	25	\$7,915
7	Physician Assistant	19	\$86,738	18	9	\$9,638
8	Occupational Therapist	61	\$5,000	49	1	\$5,000
9	Pharmacist	15	\$146,916	20	8	\$18,364
10	Certified Registered Nurse Anesthetist	30	\$40,058	28	4	\$10,014

*Source: VHA FY 2014 Mission-Critical Occupational Staff Shortages, May 27, 2014; and OIG analysis of PAID extract of 3R incentives with an effective start date in FY 2014*

**Table 10. VHA Retention Incentives by Frequency and Total Amount Paid and Ranked by Occupation**

VHA Rank	Occupational Description	Rank by Total Incentive Payment	Total Incentive Payment	Rank by Award Frequency	Award Frequency	Average Incentive Award
1	Medical Officer	1	\$13,271,269	2	630	\$21,066
2	Nurse	2	\$4,858,725	1	1339	\$3,629
3	Human Resources	17	\$225,280	19	19	\$11,857
4	Physical Therapist	15	\$298,172	15	43	\$6,934
5	Medical Technologist	9	\$937,202	7	148	\$6,332
6	Psychologist	18	\$221,135	20	18	\$12,285
7	Physician Assistant	8	\$957,045	9	105	\$9,115
8	Occupational Therapist	50	\$22,431	40	4	\$5,608
9	Pharmacist	10	\$809,292	11	57	\$14,198
10	Certified Registered Nurse Anesthetist	3	\$2,866,782	4	233	\$12,304

*Source: VHA FY 2014 Mission-Critical Occupational Staff Shortages, May 27, 2014; and OIG analysis of PAID extract of 3R incentives with an effective start date in FY 2014*

## Appendix E Potential Monetary Benefits in Accordance With Inspector General Act Amendments

<b>Recommendation</b>	<b>Explanation of Benefits</b>	<b>Better Use of Funds</b> (in millions)	<b>Questioned Costs</b> (in millions)
1-4	Develop controls to ensure Administrations' and CSEMO's compliance with VA's requirements for 3R incentive advertisement, approval, and award.	\$77.5	\$0
5-8	Develop procedures to monitor Administrations' compliance with workforce and succession planning to reduce long-term reliance on retention incentives, develop procedures to monitor CSEMO's compliance with VA Handbook 5007/46, and assess the feasibility of limiting the number of years retention incentives can be paid to employees in certain occupational series.	\$81.2	\$0
9-10	Monitor Administrations' compliance with debt collection requirements and ensure HR Smart has capabilities to issue incentive-specific alerts for unmet obligations.	\$3.9	\$0
<b>Total</b>		<b>\$162.6*</b>	<b>\$0</b>

\*This total is the sum of our projected cost estimates for FYs 2015 through 2019.



## Appendix F Management Comments

### Department of Veterans Affairs Memorandum

Date: August 23, 2016

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

Subj: Response to Recommendations to the Audit of the Recruitment, Relocation, and Retention and Incentives

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

**1. We recommended the Acting Assistant Secretary for Human Resources and Administration review and update procedures and add internal controls for Administrations to ensure recruitment and relocation incentives are fully justified and authorized before being included on vacancy announcement for hard to fill positions or before the final selectee is identified in cases where a position is not filled through a vacancy announcement.**

Concur. On July 8, 2016, VA's Recruitment and Placement Policy Service issued policy guidance for the VA enterprise regarding procedures when offering recruitment and relocation incentives and relocation expenses. This guidance applies to the recruitment of all types of positions in the competitive and excepted services under the title 5 system, and the excepted service under the title 38 and title 38 hybrid systems in VA and applies when filling vacant positions and using competitive examining or merit promotion procedures, including special noncompetitive hiring. See attached Human Resources Management Letter number 05-16-03. This policy guidance is pending incorporation into VA Handbook 5005, Staffing.

Recommendation	Action Owner	Start Date	End Date
VA's Recruitment and Placement Policy Service issued policy guidance for the VA enterprise regarding procedures when offering recruitment and relocation incentives and relocation expenses.	OHRM	July 2016	Dec 2016

**2. We recommended the Acting Assistant Secretary for Human Resources and Administration review and update procedures and add internal controls for the Corporate Senior Executive Management Office to ensure Senior Executive Service recruitment and relocation incentives are fully justified and authorized before being included on vacancy announcements for hard to fill positions or before the final selectee is identified in cases where a position is not filled through a vacancy announcement.**

Concur. VA has implemented additional internal controls for 3R payments made for Senior Executives. In April 2015 CSEMO established a single Personnel Office ID (POID) for the processing of all actions for its senior executive customers. This centralization now ensures that 1) relocation incentive payments were not being made without the proper certifications being received from the executives and 2) executives are fulfilling the agreed upon service periods or repayment is waived or requested.

Recommendation	Action Owner	Start Date	End Date
VA has implemented additional internal controls for 3R payments made for Senior Executives.	CSEMO	Apr 2015	Aug 2016

**3. We recommended the Acting Assistant Secretary for Human Resources and Administration review and update procedures and add internal controls for Administrations to monitor compliance with its employee certification requirement before relocation incentives are authorized for payment.**

Concur. A policy revision to VA Handbook 5007, part VI, chapters 2 and 3 is currently in the concurrence process. One of the changes in the proposed policy revision is to require Human Resources Offices to ensure an employee maintains proof of residency in the specific geographic location for the duration of the service period by requesting periodic proof of continued residency from the employee. HR Offices are already responsible for ensuring an employee has established a residence in the new geographic location before a relocation incentive payment is processed. To provide additional guidance to HR Offices, VA Handbook 5007, part VI, chapter 2, paragraph 6 has been updated to provide additional clarification on what is considered a new geographic area, examples of different ways employees may establish residency in the new geographic area, and the requirement that employees must maintain residency in the geographic area for the duration of the service agreement.

Recommendation	Action Owner	Start Date	End Date
VA policy has been revised to include updated guidance and procedures related to relocation incentives.	OHRM		Policy revision tentative publication date is Dec 31, 2016

**4. We recommended the Acting Assistant Secretary for Human Resources and Administration review and update procedures and add internal controls for the Corporate Senior Executive Management Office to ensure Senior Executive Service's compliance with the employee certification requirement before Senior Executive Service relocation incentives are authorized for payment.**

Concur. VA has implemented additional internal controls for 3R payments made for Senior Executives. In April 2015 CSEMO established a single Personnel Office ID (POID) for the processing of all actions for its senior executive customers. This centralization now ensures that 1) relocation incentive payments are not being made unless the proper certifications are received from the executives and 2) executives are fulfilling the agreed-upon service periods or repayment is waived or requested.

Recommendation	Action Owner	Start Date	End Date
VA has implemented additional internal controls for 3R payments made for Senior Executives.	CSEMO	Apr 2015	Aug 2016

**5. We recommended the Acting Assistant Secretary for Human Resources and Administration review and update procedures and add internal controls for Administrations to monitor facilities' compliance with developing workforce and succession plans to reduce the risk of long term reliance on retention incentives.**

Concur. VA Handbook 5007, part VI, chapter 3 was significantly revised in April 2013. Part of this major revision required a narrative explanation of an organization's workforce and succession plan to eventually eliminate or reduce the need for retention incentives. An organization's workforce and succession planning efforts must be fully documented in Section C of VA Form 10017, Authorization and Review of Retention Incentive. VA Handbook 5007 requires the succession plan to include information on the quality and availability of potential sources of employees identified in the organization's succession plan who possess the competencies required for the position and who, with minimal training, cost, and

disruption of service, could perform the full range of duties and responsibilities at the level performed by the employee. The plan may include future recruitment and training efforts, changes in workflow distribution, reengineered processes or similar measures to eliminate the need to retain employees with an incentive. For positions with documented long-term staffing difficulties, the plan must describe how the continuation of retention incentives is a necessary flexibility to retain essential employees.

VA policy requires approving officials to ensure workforce and succession plans are actively pursued and successfully administered as documented in the authorization. In addition, VA policy requires all retention incentives be reviewed and re-certified on an annual basis to determine whether continued payment at the percentage authorized is appropriate, or if the retention incentive should be terminated. As part of this mandatory annual review, approving officials must include the results of workforce succession planning efforts previously proposed to eliminate or reduce the use of incentives. Retention Incentives that are not recertified annually, as evidenced by the local Human Resources Office coding the incentive in HR Smart, are automatically terminated. We do not believe additional clarification or guidance needs to be added to VA Handbook 5007, part VI, chapter 3 related to the development, documentation and use of workforce succession plans to reduce the continued use of retention incentives.

In the proposed policy revision to VA Handbook 5007, part VI, chapter 3 we have developed a template that will be used as part of the mandatory annual review of all recruitment, relocation and retention incentives. The Annual Certification on Usage of Recruitment, Relocation and Retention Incentives template has been developed in order to collect mandatory information on the usage of recruitment, relocation and retention incentives. This annual report must be signed by the Network Director for VHA and VBA; at the Area Director level for NCA; and by Assistant Secretaries or Other Key Officials for Staff Offices. Section 5 of this proposed template requires a narrative description and information to the following: Description of any workforce or succession planning efforts used or proposed that have or will eliminate or reduce the use of recruitment, relocation or retention incentives.

In addition to the workforce or succession planning narrative, each report must provide certification. In the proposed policy revision to VA Handbook 5007 we had proposed the following language: "I attest to the strategic and prudent use of all incentives authorized in this organization. Each of the recruitment, relocation, and retention incentives have been reviewed and found to be in compliance with VA policy contained in VA Handbook 5007." In order to provide enhanced procedures and internal controls in order to monitor compliance with developing workforce and succession plans to reduce the risk of long term reliance on retention incentives, we recommend to further revise the Certification statement to read as follows:

**CERTIFICATION** - Each recruitment, relocation, and retention incentive approved during calendar year 20XX has been reviewed and found to be in compliance with VA policy contained in VA Handbook 5007. I attest to the strategic and prudent use of all incentives authorized in this organization. As part of this attestation, I certify that each retention incentive included workforce and succession plans to reduce the risk of long term reliance on retention incentives. In addition I certify appropriate action has been taken to initiate debt collection from individuals who did not fulfill approved service obligations.

Recommendation	Action Owner	Start Date	End Date
VA Handbook 5007 will be revised to enhance the certification process and template to include certification that each retention incentive included workforce and succession plans to reduce the risk of long term reliance on retention incentives	OHRM		Policy revision tentative publication date is Dec 31, 2016

**6. We recommended the Acting Assistant Secretary for Human Resources and Administration review and update procedures and add internal controls for the Corporate Senior Executive Management Office to ensure Senior Executive Service's compliance with developing workforce and succession plans to reduce the risk of long term reliance on retention incentives for Senior Executives.**

Concur: CSEMO has proactively worked to educate and collaborate with VHA on the proper use of and justifications required to support retention incentives. This effort has resulted in only two recommendations and approvals for retention incentives from March 2015 to April 2016. CSEMO's efforts to initiate a Talent Management program for executives across the VA will ensure there are appropriate workforce plans in place, thereby further reducing the risk of long term reliance on retention incentives.

Recommendation	Action Owner	Start Date	End Date
CSEMO has proactively worked to educate and collaborate with VHA on the proper use of and justifications required to support retention incentives.	CSEMO	Mar 2015	Sep 2016

**7. We recommended the Acting Assistant Secretary for Human Resources and Administration review and update procedures and add internal controls for the Corporate Senior Executive Management Office to ensure its technical review and recommendations to the VA Chief of Staff regarding Senior Executive Service incentives are prudent and in full compliance with VA Handbook 5007/46.**

Concur. Since the IG's review of the SES cases from FY14, CSEMO, under its new leadership, has ensured greater accountability over how the VA uses the 3R incentives for its executive cadre. CSEMO conducts a thorough analysis of every incentive package pertaining to Senior Executives across the Department of Veterans Affairs. CSEMO ensures each incentive is fully justified and meets the stringent criteria outlined in the CFR and VA policy prior to recommending approval to the COSVA. Evidence that each factor was considered is documented, so there are procedures in place to ensure the incentives are only used when appropriate and the amounts are justified based on a variety of factors as well. As a result, in FY15 there were a total of 19 incentives paid to executives totaling \$534,532, which is less than half of the \$1.052M paid just the year prior in FY14.

Recommendation	Action Owner	Start Date	End Date
CSEMO has ensured greater accountability over how the VA uses the 3R incentives for its executive cadre by conducting a thorough analysis of every incentive package pertaining to Senior Executives across the Department of Veterans Affairs. CSEMO ensures each incentive is fully justified and meets the stringent criteria outlined in the CFR and VA policy prior to recommending approval to the COSVA	CSEMO	Mar 2015	Sep 2016

**8. We recommended the Acting Assistant Secretary for Human Resources and Administration assess the feasibility of limiting the number of consecutive years employees in specific occupations or groups of employees in specific occupations can receive retention incentive payments.**

Concur. Based on the assessment conducted, because retention issues vary greatly, by occupation, by geographic location, and by situation, we recommend that VA should not limit the regulatory flexibilities that currently exist for retention incentives. There would be no way to reasonably predict retention difficulty by occupation, throughout the VA system.

VA policy was changed in 2013 to require that all retention incentives be reviewed at least annually to determine whether continued payment at the percentage authorized is appropriate. Approving officials must review incentives more frequently when the conditions giving rise to the original determination have changed or no longer exist. Approving officials must reduce or terminate a retention incentive authorization whenever payment at the level originally approved is no longer warranted, or when payment of an incentive is no longer necessary. If the retention incentive is still necessary, the approving official may continue paying a retention incentive to an employee, or group of employees, as long as the conditions giving rise to the original determination to pay the incentive still exist.

In order to adequately maximize VA's ability to retain high quality employees who are likely to leave the Federal service, it is imperative that management officials continue to have the ability to authorize retention incentives with no additional limits. Any attempts to further limit or reduce flexibilities already available in regulation and VA policy may have a negative effect on VA providing high quality healthcare and meeting our Access to Care initiatives. VA published a Pay policy for Senior Executives (hopefully to be dated August 1, 2016), which includes additional guidance for the use of the 3Rs, highlighting the specific requirements associated with identifying a position as likely hard to fill.

Recommendation	Action Owner	Start Date	End Date
Based on assessment, we do not believe VA should limit the regulatory flexibilities that are available for retention incentives.	OHRM	Jul 2016	Jul 2016

**9. We recommended the Acting Assistant Secretary for Human Resources and Administration review and update procedures and add internal controls for Administrations to monitor facilities' compliance with VA Handbook 5007/46 requirements to initiate debt collection from individuals that did not fulfill their recruitment, relocation, or retention incentive service obligations.**

Concur. The proposed policy revision to VA Handbook 5007, part IV, chapter 2 will require all requests for waivers due to breach of service obligations to be submitted, through channels, to the Assistant Secretary for Human Resources and Administration. Such requests will be routed to the Office of Human Resources Management, Compensation and Classification Service for technical review prior to approval. Previously requests for waivers were routed to the original approval official. This change elevates all requests for waivers to a higher level and will require technical review in VA Central Office.

It remains the responsibility of HR offices to calculate the amount of overpayment made to an employee and to notify the local payroll office of the debt; the local payroll office must then take the appropriate action to collect any debt determined to be an overpayment made to the employee. Payroll must submit the overpayment determination to the payroll provider to support due process procedures, debt billing and collection.

In order to establish internal procedures to monitor facilities' compliance in relationship to debt collection from individuals that did not fulfil their service obligation, we propose the following change be made to the Certification statement that will be required in each annual report:

CERTIFICATION - Each recruitment, relocation, and retention incentive approved during calendar year 20XX has been reviewed and found to be in compliance with VA policy contained in VA Handbook 5007. I attest to the strategic and prudent use of all incentives authorized in this organization. As part of this attestation, I certify that each retention incentive included workforce and succession plans to reduce the risk of long term reliance on retention incentives. In addition I certify appropriate action has been taken to initiate debt collection from individuals who did not fulfill approved service obligations.

Recommendation	Action Owner	Start Date	End Date
<p>The proposed policy revision to VA Handbook 5007, part IV, chapter 2 will require all requests for waivers due to breach of service obligations to be submitted, through channels, to the Assistant Secretary for Human Resources and Administration. Such requests will be routed to the Office of Human Resources Management, Compensation and Classification Service for technical review prior to approval. Previously requests for waivers were routed to the original approval official. This change elevates all requests for waivers to a higher level and will require technical review in VA Central Office. Additionally, VA Handbook 5007 will be revised to include an enhanced review process and template that requires certification that appropriate action has been taken to initiate debt collection, as appropriate</p>	OHRM		<p>Policy revision tentative publication date, Dec 31, 2016</p>

**10. We recommended the Acting Assistant Secretary for Human Resources and Administration examine the capabilities of HR Smart to determine the extent to which it is possible to develop an incentive-specific automated alert that notifies Human Resources personnel when employees have outstanding recruitment, relocation, or retention incentive service obligations.**

Concur. HR Smart has the capability to alert Human Resources personnel when employees have outstanding recruitment, relocation, or retention service obligations, as well as all service obligations. The capability has of this requirement has been confirmed. We are currently working with the Service Provider to scope and implement the solution.

Recommendation	Action Owner	Start Date	End Date
<p>HR Smart has the capability to alert Human Resources personnel when employees have outstanding recruitment, relocation, or retention service obligations, as well as <u>all</u> service obligations. The capability has of this requirement has been confirmed. We are currently working with the Service Provider to scope and implement the solution.</p>	OHRM	Jul 2016	Jul 2016

11. POC is Laura Wages at [Laura.Wages@va.gov](mailto:Laura.Wages@va.gov) or 202-461-5908.

(original signed by:)

Meghan Flanz

<p><i>For accessibility, the format of the original memo has been modified to fit in this document</i></p>
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## **Appendix G Office of Inspector General Contact and Staff Acknowledgments**

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Contact	For more information about this report, please contact the Office of Inspector General at (202) 461-4720.
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Acknowledgments	Nick Dahl, Director Irene J. Barnett Marco Chan John Cintolo Michael Derick Lee Giesbrecht Zachery Jensen Jenna Lamy Jennifer Leonard Victor Rhee Ann Wolf Tanya Zapenas
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