

**SENIOR EXECUTIVE SERVICE BONUSES:
ENSURING THE U.S. DEPARTMENT OF
VETERANS AFFAIRS PROCESS WORKS**

HEARING
BEFORE THE
SUBCOMMITTEE ON OVERSIGHT AND
INVESTIGATIONS
OF THE
COMMITTEE ON VETERANS' AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
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TUESDAY, JUNE 12, 2007

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON VETERANS' AFFAIRS,
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:12 p.m., in Room 334, Cannon House Office Building, Hon. Harry E. Mitchell [Chairman of the Subcommittee] presiding.

Present: Representatives Mitchell, Space, Walz, and Brown-Waite.

Also present: Representative Hall.

OPENING STATEMENT OF CHAIRMAN MITCHELL

Mr. MITCHELL. Good afternoon. This hearing is about the process of awarding Senior Executive Service (SES) bonuses at the U.S. Department of Veterans Affairs (VA). This hearing will come to order.

I want to thank everyone for coming today. I am also pleased that so many folks could attend this oversight hearing on the process of awarding Senior Executive Services (SES) bonuses at the U.S. Department of Veterans Affairs (VA).

Before we begin this hearing, I ask unanimous consent that Mr. Filner, Mr. Hall, Mr. Hare, and Ms. Berkley be invited to sit at the dais for the full Committee hearing today. Hearing no objection, so ordered.

The Members will feel free to join us at the dais.

I know that the VA is full of hardworking, dedicated, and talented people. Nevertheless, there are reasons to be concerned that the VA bonus process is not doing what it should, matching pay to individual and organizational performance.

Consider the following: The VA pays the highest average bonuses among all cabinet agencies. In 2006, 87 percent of Senior Executive Service employees who were considered for bonuses received one.

Central office bonuses averaged \$4,000 more than field bonuses. Particularly in the central office, there appears to be a case of exaggerated Lake Woebegone syndrome. Not only is everyone above average, almost everyone is outstanding.

The VA does indeed do an outstanding job in many areas, but not all, and we hope that this oversight hearing will assist the VA in making sure that its bonuses are more closely matched to its performance.

Performance is not just individual. It is also organizational. The bonus system must allocate responsibility where it lies. When the backlog of claims has been increasing for the past few years, one would not expect the senior-most officials of the Veterans Benefit Administration (VBA) to receive the maximum bonus.

When the VA is forced to return to Congress for additional money, which happened twice in 2006, because the budget submitted to Congress was inadequate and the VA failed to keep Congress informed, one would not expect the senior-most officials of the VA responsible for the budget to receive the maximum bonus.

This is not a question of blame. It is a question of responsibility. We can be certain that if the senior leaders of VBA know in advance that their bonuses will depend, at least in part, on the reduction in the backlog of claims, those leaders would bring all of their creative energy to bear on this problem.

The Subcommittee is also concerned about the performance measures for central office employees. VA appears to be doing a commendable job at identifying objective, quantifiable criteria for evaluating its field personnel. The same is not true for the central office.

It appears that central office personnel are evaluated on the basis of justifications written by the employees themselves, with no objective criteria factoring into the process.

For example, the extent of the backlog of claims by VBA would seem to be one of the most important metrics of performance, but this Subcommittee has seen nothing in the materials provided by the VA that this metric was even considered by the Secretary in deciding the bonuses for senior leaders of VBA.

Indeed, it appears that bonuses to the central office were awarded primarily on the basis of seniority and proximity to the Secretary.

We are also concerned about what appears to be a breakdown in the review process. VA is subject to oversight by the VA Inspector General (IG) and by the Office of Medical Investigations (OMI).

The Committee has found several examples of bonuses being awarded to employees responsible for VA operations that have been the subject of highly critical IG or OMI reports in the same year the bonus was awarded. VA must ensure that the Secretary and the Personnel Review Boards are aware of, and consider, such reports when making bonus decisions.

Finally, I would note that Secretary Nicholson is responsible by law for the ultimate determination of who gets bonuses and at what amounts. The Committee invited Secretary Nicholson to attend today's hearing, but the VA has chosen to send his Deputy, Mr. Mansfield, even though Mr. Mansfield appears to have no role in the bonus process. The Committee would be pleased to hear from Mr. Mansfield that this is incorrect.

In addition, it appears that Secretary Nicholson has served as a rubber stamp for the recommendations made by his subordinates in sharp contrast to his predecessor. The Committee assumes that Mr. Mansfield will be able to address this issue as well.

In closing, I want to reiterate this Committee has no desire to denigrate the good work of the senior managers of the VA. This

hearing is not intended to pressure the VA into eliminating bonuses or to target individual VA employees.

The VA, this Committee, and all Americans want what is best for our veterans. The SES bonus system can be an effective tool in improving the performance of the VA and Congressional oversight of that process will assist the VA in better matching performance to reward.

I look forward to today's testimony.

[The prepared statement of Chairman Mitchell appears on p. 35.]

Before I recognize the Ranking Republican Member for her remarks, I would like to swear in our witnesses. And are the other panel members here? I would like all to stand, raise your right hand.

[Witnesses sworn.]

Thank you.

I now recognize Ms. Brown-Waite for opening remarks.

OPENING STATEMENT OF HON. GINNY BROWN-WAITE

Ms. BROWN-WAITE. Thank you, Mr. Chairman, and I thank you very much for yielding.

I would also like to thank the witnesses who are coming before us at this hearing. Your testimony is important to the oversight of this Committee in guaranteeing the process of assessing bonus reviews, whether it is fair, accurate, and appropriate.

During our Subcommittee hearing on April 19th, discussing the care situation at the W.G. "Bill" Hefner VA Medical Center in Salisbury, North Carolina, I asked for a list of the people who were involved in the administration of care at the hospital and the bonuses they received over the period of time where there obviously was questionable quality of care rendered to veterans at that facility.

The Federal Government should not be in the practice of providing bonuses to individuals who permit failure in the system under their watch. I believe that government should be run as a business enterprise where bonuses are used for an appropriate reward. But they should be limited to only the very best and most deserving employees, especially during a time of war.

Several Members on both sides of the aisle have expressed frustration over the bonus situation, particularly after many news articles describing who received certain bonuses and speculation as to whether these bonuses were justly and appropriately applied throughout the SES bonus process.

The news media linked bonuses to the 2005 budget shortfall issue, one that is very fresh on the minds of those who were here at the time. The media and several Members have also linked the bonuses to the claims backlog that is prevalent at the VA.

I am concerned that we should not be too quick to judge the evaluation process, but rather give all the witnesses here a fair process to express their views.

It is my hope, though, that through the process of this hearing, we will learn how the VA determines the bonus awards given out and whether the bonuses to members of SES at the VA were given in an appropriate amount related to their actual performance, not their performance on paper.

I also look forward to hearing from the U.S. Government Accountability Office (GAO) to better understand how the Office of Personnel Management (OPM) certifies VA's bonus process and perhaps a better insight on VA's bonus justification process. I am sure many of the bonuses reflect the hard work and professionalism of VA's senior management and that is what this hearing is all about, to determine whether or not that process actually works.

Again, I thank the Chairman for yielding and I yield back the balance of my time.

Mr. Chairman, as you know, I think they have called for a vote very soon.

[The prepared statement of Congresswoman Brown-Waite appears on p. 36.]

Mr. MITCHELL. Yes. Unfortunately, we are going to have to recess until we come back from a vote and it will be about an hour. The Committee is recessed until the sound of the gavel.

[Recess.]

Mr. MITCHELL. The Subcommittee will come to order. We will now proceed to panel one. Mr. Christopher Mihm is the Managing Director of Strategic Issues for the U.S. Government Accountability Office. We look forward to hearing his unbiased view of the VA's process for awarding SES bonuses.

Mr. Mihm, you are recognized for 5 minutes.

STATEMENT OF J. CHRISTOPHER MIHM, MANAGING DIRECTOR, STRATEGIC ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. MIHM. Thank you, Mr. Chairman.

Mr. Chairman, Members of the Subcommittee, it is indeed a great honor to be here today to discuss VA's process for awarding performance bonuses to members of the Senior Executive Service.

I must stress from the outset that while we have reviewed the structure of the Federal Government's SES pay and bonus system and its implementation at selected agencies, VA has not been one of the agencies, where in the past, we have been asked to do detailed work.

We would be happy obviously moving forward to do work on behalf of the Committee if you think it would be of value. However, my comments today are based on just a couple of weeks of work we have done at VA and, therefore, must necessarily speak to the design of the system at VA rather than its implementation which is, of course, the key issue that you were talking about in your opening statement, Mr. Chairman.

Mr. Mitchell, as you and Ms. Brown-Waite were mentioning in your opening statements, high-performing organizations understand that they need senior leaders who are accountable for results, drive continuous improvement in agency operations, and make sure that organizational goals and related transformation efforts are being achieved.

In that regard, we have identified a set of key practices of effective performance management for the SES which center on ensuring what we have called a "line of sight" or linkage between individual performance and organizational success.

My written statement covers a number of topics. But in the interest of time, I will hit on just three major points.

First, in terms of process. Broadly consistent with what we have seen at other agencies, VA requires that each SES member have an executive performance plan or contract in place for the appraisal year that reflects measures that balance organizational results with customer satisfaction, employee perspectives, and other appropriate measures.

At the end of the appraisal year, VA's Performance Review Boards (PRBs) review and make recommendations on SES members' ratings, awards, and pay adjustments based on those performance plans. Board members are appointed on the basis of positions held and consideration is given to those positions where the holder would have knowledge of the broadest group of executives.

VA has four PRBs and they vary quite a bit in size, composition, and number of SES members considered for bonuses. Each PRB has within the scope of VA's policies developed its own procedures and criteria for making recommendations.

Second, in terms of the bonuses awarded. In 2005, according to OPM's most recent governmentwide data, VA awarded a higher average bonus amount to its career SES than any other cabinet-level department. On the other hand, OPM data also show that six other cabinet-level departments awarded bonuses to a higher percentage of their career SES members.

More recently for fiscal year 2006, VA awarded an average of \$16,600 in bonuses to 87 percent of its career SES. At headquarters, 82 percent of the SES received a bonus, and 90 percent received a bonus in the field.

Those in headquarters were awarded, as you mentioned in your opening statement, an average of about \$4,000 more in bonuses than those in the field. And as I noted, 2006 data that would allow us to compare VA with the other agencies is not yet available.

My third point, and this was something that Ms. Brown-Waite raised on OPM and the Office of Management and Budget's (OMB's) role: OPM and OMB evaluate agencies' SES and senior-level employee performance appraisal systems against nine certification criteria jointly developed by those two agencies.

OPM also issues guidance to help agencies improve their systems and reviews submissions to ensure that they meet the criteria.

OMB for its part primarily considers overall measures of agencies' program performance and the extent to which mission goals are being met.

Let me conclude by noting that today's hearing is both timely and important as interest grows in better linking Federal employee pay to the market, individual roles and responsibilities, and performance.

We at GAO strongly believe that SES need to lead by example in this area and be role models for how to properly, fairly, and effectively implement such changes.

Let me end there and I would obviously be pleased to take any questions that you or other Members of the Subcommittee may have.

[The prepared statement of Mr. Mihm appears on p. 36.]

Mr. MITCHELL. Thank you. I just have one question.

You testified that high-performing organizations understand that they need senior leaders who are held accountable, who drive continuous improvements, and stimulate support efforts to integrate human capital approaches.

What are key steps that agencies, including the VA, can take in that regard?

Mr. MIHM. There are several things, Mr. Chairman. I think most important is that organizations need to have a good set of performance plans and strategic plans in place. That is, they need to make sure that there is agreement between them, stakeholders, and the Congress on what is going to be achieved in terms of the programmatic outcomes and how progress will be measured.

The second thing, once they have that in place, they need to make sure that they create again what we have called the "line of sight," that is that they drill down those program goals into individual SES contracts so that we have clear accountability and assurance that if this Senior Executive achieves this level of performance, it will deliver meaningful results for clients and program customers and for the American people.

We find very often in agencies, even some of the agencies that will have nice, sound, well-thought-out strategic plans, that there is not that linkage down to individual activities. There is no "line of sight" in place. So that line of sight is the second very important point.

Third is that there needs to be meaningful distinctions in performance. We need to make sure that we are identifying performance based on program goals and rewarding our top performers with bonuses and permanent pay increases, that we are giving others that are the majority in the middle categories opportunities to improve, and to the extent that there are people that just are not being successful, that we have the good information that we need to deal with unsuccessful performance.

Those are really three of the most key things that we think need to take place.

Mr. MITCHELL. Thank you.

And I yield my time. Ms. Brown-Waite.

Ms. BROWN-WAITE. I thank the Chairman.

Mr. Mihm, I apologize for not being here. I was over on the floor and then I had to go up to my office. And I will be leaving for an amendment on the floor when they actually get to the amendment process.

Your testimony indicates that the VA uses four Performance Review Boards. These Boards review the Veterans Health Administration (VHA), VBA, VA Headquarters, and the VA IG. I understand that the functions are different for each of these distinct Boards and the accompanying criteria for the business lines, but should not the review process reflect one VA departmental human resource system?

Mr. MIHM. That is an excellent point, ma'am. And at a minimum, to the extent that there are differences, and there are differences in the case of the VA, to the extent that there are differences in an agency among the various PRBs that are in place, they should be known and considered differences. That is, there should be a

business case for those differences and not merely, “Well, we do it this way and someone else does it another way.”

In the case of VA, as you mentioned, they have the four PRBs. The one that covers VHA and the separate one that covers VBA do have to vet their procedures through the Veterans Affairs PRB which covers central staff offices as well as cemeteries.

We have not had the opportunity yet to get a good understanding that would really allow me to speak directly to your question about why are these differences and are they considered. What are the reasons? There may be excellent reasons. We do not know. But at a minimum, one would want to again make sure that those reasons are thoughtful and considered and not just idiosyncratic.

Ms. BROWN-WAITE. Do you know if other agencies’ SES categories have more than one Board?

Mr. MIHM. Many agencies will have one or more or several PRBs, yes, ma’am. In that case, VA is consistent with other agencies.

Ms. BROWN-WAITE. Okay. But is there one system or a different disparate system?

Mr. MIHM. I am sorry. I did not understand your question at first. I am not sure on that. Let me give you a more thoughtful answer if I could for the record rather than have to correct something.

Ms. BROWN-WAITE. Okay. Do you know what actually precipitated VA’s decision to change its policies on SES performance plans?

Mr. MIHM. If I could ask for a clarification as to if there is a particular change that you have in mind because I guess the reason I ask that is that overall, VA’s changes came about consistent with what other agencies did with congressional authorization in 2003 and 2004 that allowed agencies with certified, from OPM and OMB, performance management systems to raise their pay caps and provide additional bonuses.

Ms. BROWN-WAITE. Okay. So it was OPM directed?

Mr. MIHM. It was OPM and OMB.

Ms. BROWN-WAITE. For all agencies?

Mr. MIHM. Yes, ma’am. What happens is that agencies have to independently apply to OPM and OMB. They have to provide OPM and OMB with a variety of information based on the nine criteria that OPM and OMB have jointly developed, and they get either full certification for their performance management system or provisional certification.

Each year since 2004, VA has had provisional certification. They have additional paperwork that is due to OMB for the current year by the end of June, and they tell us they expect to submit that paperwork to them.

Most executive agencies have received provisional certification, that is they are allowed to raise their pay cap, but they are still not consistent with all the OPM/OMB criteria.

Ms. BROWN-WAITE. Are they as consistent or less consistent as other agencies?

Mr. MIHM. Well, one of the things that tripped VA in the past has been a sticking point with a number of agencies. It gets back to one of the things I was discussing with the Chairman and that is the targets that are in SES performance contracts. OPM was asking VA to make sure that they were results oriented, that there

was a sizeable percentage of those targets that had quantitative measures on those.

It is exactly, ma'am, the point that you were making in your opening statement: If we have hard data that something is not happening, that health outcomes are not happening, for example, we need to know both from an improvement opportunity how can we get better, but also who is responsible for that.

The way you do that is making sure that you have SES contracts that have those requirements, quantitative requirements in there.

Ms. BROWN-WAITE. I thank the gentleman, and I yield back.

Mr. MITCHELL. Thank you.

Mr. Space.

Mr. SPACE. Pass for questions, Mr. Chairman. Thank you.

Mr. MITCHELL. Mr. Walz.

Mr. WALZ. Thank you, Mr. Chairman and Ranking Member.

Thank you, Mr. Mihm, for taking your time to be here. I just had a couple of questions.

First of all, to put this into context, the last three positions I have held over the last few years is high school teacher, Command Sergeant Major in the Army National Guard, and Member of Congress, not necessarily in order of importance. None had performance bonuses.

My question to you is, is there any quantitative data that shows we are losing people in the SES because we are not providing them with bonus pay because this program was set up for performance bonus not as a means of offsetting the difference between public and private sector?

If it is being used to do that, do we not need to go back and re-evaluate the pay system in general then and alleviate this misperception that if the agency is underperforming, we are still going to give bonuses because we are under threat of losing these people?

Mr. MIHM. You are raising an excellent point, sir, in that we have issued some work to some of your colleagues on the House Government Reform and Oversight Committee that asked us to look at both executive pay, judicial pay, and SES pay.

And one of the things that we came up with or developed as part of that is some principles for Federal pay. You want it to be market sensitive. You want it to be flexible. You want it to be sustainable over time and that it is affordable.

There is a natural but unfortunate tendency to conflate the performance award process with the pay process. If we are not paying market pay, and in some cases, I am certain we are not, in many cases, we are probably fine and in some cases, we may be over market, but if we are not paying to market, then Congress and all of us need to address that.

The performance appraisal and the bonus system were not intended to really be the vehicle to address those types of issues. Those should be on a separate track.

Mr. WALZ. All right. Very good. And I just had one more and I am not sure on this one, Mr. Mihm, if you can help me with this.

I know the nine criteria that we are measuring here on the performance. The one that I guess strikes and steps out at me is the accountability one. That is the one that I would say we are very concerned with.

And, again, is there any correlation that we can prove between individual performance and individual performance bonuses and agency performance because our ultimate goal here is across the spectrum agency performance to delivering better care to our veterans?

So I could see 39 out of 42 highly performing individuals and if the agency is not performing to that level, is it fair to say that that should be almost an overriding criteria of these nine in your opinion?

Mr. MIHM. It should certainly be, sir, a very compelling one. I am not trying to parse words there. But certainly over time, it is a reasonable expectation on behalf of the American people, on behalf of the Congress and the American people that Senior Executives, that those of us that have been entrusted with Senior Executive positions in government, that are doing right, well paid by the standards of most Americans, are able to demonstrate that we are giving meaningful results to our fellow citizens.

And if we are, then there should be a bonus system that appropriately recognizes and rewards that. But if not, we need to be able to address those problems as well. We are only in the first couple years of meaningful pay for performance for Senior Executives.

It is over time, and I am not talking decades. We are talking relatively soon, we should be able to start seeing pretty strong lines of sight and linkages between organizational success and the individual awards that accompany those.

Mr. WALZ. Thanks, Mr. Mihm.

I yield back my time, Mr. Chairman.

Mr. MITCHELL. Thank you.

Mr. Hall.

Mr. HALL. Thank you, Chairman Mitchell and Ranking Member Brown-Waite, for including us from other Subcommittees in this hearing.

Mr. Mihm, thank you for your testimony. I want to follow up Mr. Walz's questions by asking, there is a media report stating that the average VA bonus in 2002 was \$8,120 and the current average is \$16,606. Has there been any change in Federal law that you know of that would explain this rapid increase?

Mr. MIHM. The big changes were beginning with 2004. There were two separate pieces of statute. But in 2004 was when it kicked in that agencies with certified performance management systems were authorized to raise both their pay limits and their total compensation limits. And so that would allow for authorizing an increase.

Mr. HALL. So other departments would have been doing the same kind of thing?

Mr. MIHM. You will see that there were increases in many cases across agencies.

Mr. HALL. Can you explain in greater detail why the VA received only provisional certification from OPM rather than full certification? It appears that OPM had some concerns about the VA bonus review system but granted it provisional certification for 3 years.

Mr. MIHM. Yes, sir. The provisional certification from OPM, and this was fairly consistent with what other agencies were getting,

similar types of feedback, turned on large measure the degree to which the performance contracts for SESers at VA had results oriented, quantitative targets in them that appropriately balanced organizational results, outcomes, an employee perspective or business perspective, and customer satisfaction, customer response categories.

The VA, we have looked at their 2006 or a sample of their 2006 contracts and begun to look at their 2007 contracts. We have seen that they have been making changes in response to OPM and OMB, and OPM has indicated that they have been making changes.

As I mentioned to an earlier question, they are up for recertification. They have to submit information to OPM by the end of June of this year and so all of us will have a better feel as to whether or not they have made sufficient progress.

Mr. HALL. So we might expect that they will provide information on or evidence of the outstanding performance that merits these bonuses?

Mr. MIHM. I am sorry, sir?

Mr. HALL. We might expect or you might expect to see by the end of this month, this June—

Mr. MIHM. What we will see, what we should see, all of us, is by the end of this month, VA's package to OPM in which there will be an attempt to show against the nine criteria, including organizational results, how they have improved their performance management system.

Mr. HALL. That will be something to look forward to.

Mr. MIHM. Yes, sir.

Mr. HALL. And have you seen any information that would suggest that the VA has provided bonus awards to hospital directors for holding down costs by not replacing senior staff?

Mr. MIHM. We have not seen that, but we have not looked. I want to be clear on that. We would be happy to undertake that work if that is something that the Committee would be interested in.

Mr. HALL. Just a thought. And how does the 87 percent of SES officials at VA who received bonuses compare with the percentage of bonuses paid at other departments?

Mr. MIHM. It is among the highest in government. There are six other agencies that had higher percentages of that. VA gives the highest dollar amount in average bonuses. There are six other agencies that gave bonuses to a higher percentage of their SES. We would all like to work there, the Lake Wobegone factor, Mr. Chairman. There are some agencies where 95 percent of the SESers received bonuses. Great work if you can get it.

Mr. HALL. Thank you very much, sir. No further questions.

I yield back. Thank you, Mr. Chairman.

Mr. MITCHELL. Thank you.

Are there any other questions of Mr. Mihm?

[No response.]

Thank you very much.

Mr. MIHM. A pleasure.

Mr. MITCHELL. Thank you.

I welcome panel two to the witness table. We are pleased to have Deputy Secretary Gordon Mansfield as the principal presenter for this panel.

This Committee has a long and professional working relationship with Mr. Mansfield in all of his roles at VA, from his time serving as Assistant Secretary for Congressional Legislative Affairs to his present position as Deputy Secretary.

Mr. Mansfield is a highly decorated military combat veteran having served two tours of duty in Vietnam. His military awards include the Distinguished Service Cross, the Bronze Star, two Purple Hearts, and the Combat Infantryman's Badge.

Mr. Secretary, would you please introduce your team when you get them all settled there. And you are recognized for 5 minutes after you introduce your team.

STATEMENT OF HON. GORDON H. MANSFIELD, DEPUTY SECRETARY, U.S. DEPARTMENT OF VETERANS AFFAIRS; ACCOMPANIED BY SHARON K. BARNES, DEPUTY CHIEF OF STAFF; GERALDINE V. BREAKFIELD, ASSOCIATE DEPUTY UNDER SECRETARY FOR MANAGEMENT, VETERANS BENEFITS ADMINISTRATION; THOMAS HOGAN, SPECIAL ASSISTANT TO THE ASSISTANT SECRETARY FOR HUMAN RESOURCES AND ADMINISTRATION, OFFICE OF HUMAN RESOURCES AND ADMINISTRATION; GERALD M. CROSS, M.D., FAAFP, ACTING PRINCIPAL DEPUTY UNDER SECRETARY FOR HEALTH, VETERANS HEALTH ADMINISTRATION; AND WILLIAM F. FEELEY, MSW, FACHE, DEPUTY UNDER SECRETARY FOR HEALTH FOR OPERATIONS AND MANAGEMENT, VETERANS HEALTH ADMINISTRATION, U.S. DEPARTMENT OF VETERANS AFFAIRS

Mr. MANSFIELD. Thank you, Mr. Chairman.

I am accompanied today by Sharon Barnes, the Deputy Chief of Staff; Dr. Cross, the Acting Principal Deputy Under Secretary for Health; William Feeley, the Deputy Under Secretary for Health; and Geraldine Breakfield, who is our Associate Deputy Under Secretary for Management in VBA; and Mr. Thomas Hogan.

I request that my full testimony be accepted for the record.

Mr. Chairman, Members of the Subcommittee, I am pleased to come before you to provide an overview of the performance management system governing VA's career Senior Executive Service Performance Bonus Program.

Federal law and Office of Personnel Management policies guide the executive branch in matters relating to compensation of Federal employees. Those policies acknowledge that performance awards are integral to the government's ability to attract, retain, and reward experienced, high-quality career executives.

The statute also establishes the procedure for appointing PRBs, stipulating the majority of members are to be career appointees. And last, the statute assigns to the Secretary of Veterans Affairs final approval of awards recommended by each PRB for the Department.

The Office of Personnel Management regulations further amplify the statutory framework. OPM regulations set procedures for establishing PRBs and state the criteria for determining performance standards and related metrics. And OPM annually reviews and cer-

tifies the results of PRB activities to ensure compliance with its rules and regulations.

In keeping with the statute and adhering to OPM regulations, VA's four PRBs direct a rigorous and transparent performance management process. They establish performance standards that are objective, measurable, and to the maximum extent possible, quantifiable.

Our executives report on their specific levels of achievement measured against these standards and their supervisors subsequently recommend performance ratings, pay adjustments, and bonuses. These bonus recommendations are reviewed by the governing PRB to ensure equitable and consistent interpretation and application throughout the Department. The Board then forwards its recommendations to the Secretary for his final review and approval as per the statute.

VA has 321 career SES positions. This represents a ratio of Senior Executives to the general employee population of approximately 750 to 1. This ratio represents one of the broadest spans of control in the Federal Government.

Our SES corps provides oversight to a staff of nearly 240,000 employees and a budget of more than \$80 billion. In point, we operate the Nation's largest integrated healthcare system with 153 hospitals, 882 outpatient clinics, 46 domiciliaries, and 207 Vet Centers. Fully 198,000 employees staff those broad-based programs and services of VHA.

Our \$40 billion benefits system, supported by over 13,000 employees, disburses disability payments each month to 2.7 million recipients and pensions to more than 324,000 beneficiaries.

We operate the country's largest burial and cemetery system. This year, more than 103,000 veterans will be laid to rest in one of our 125 national cemeteries whose operations are supported by a staff of 1,527 individuals. Since 2005, we have established five new national cemeteries and will open six more by early 2009.

VA's central office is the nexus for an array of programs and services that reach from Maine to Manila. Central office sets VA-wide policy and procedures, prepares the Department's budget, oversees financial operations, and manages our information technology infrastructure.

Working for the second largest agency in the Federal Government, each VA Senior Executive has responsibility for far-reaching and complex programs, significant financial resources and major capital assets, and a large number of reporting staff.

Over the past 3 years, the average VA SES bonus amount is in the range of \$16,000. This compares to a governmentwide average of approximately \$14,000. A number of agencies report a mean SES bonus figure that falls well within the \$2,000 window between VA and governmentwide averages.

For example, fiscal year 2005 data show that the average SES bonus was 15,900 plus dollars at the Department of Agriculture, 15,800 plus dollars at NASA, and \$15,173 at the Treasury Department.

In response to recent congressional inquiries about SES bonuses, Secretary Nicholson requested an OPM review of VA's SES performance-based pay system. I am including the OPM report as an

attachment and will briefly provide a summary of its findings and request that it be included in the record, if I may.

OPM found that, number one, the design and implementation of VA's SES performance management system meets all statutory and regulatory requirements.

Number two, executives who are members of PRBs do not make recommendations regarding their own pay adjustments and awards or the pay adjustments and awards of other executives in their chain of command.

Number three, VA is making distinction in performance as evidenced in its ratings, pay, and awards decisions.

Number four, VA executives are rated and rewarded primarily based on organizational results balanced against customer and employee perspectives and additional executive competencies.

I would especially recommend to the staff and the Members of the Committee that you look at attachment three to the report. It gives much broader detail to some of the questions that have been raised.

Secretary Nicholson has agreed to implement the recommendations made as a result of the OPM analysis.

Mr. Chairman and Members of the Committee, I am extremely proud of the Senior Executives with whom I work. They are a highly competent and committed group of leaders who excel in managing an organization that, if in the private sector, would rank as a Fortune 50 company.

Most of our SES have dedicated their entire careers to the welfare of America's veterans. Many are retirement eligible and were they to retire, they could quickly be hired at considerably higher salaries.

While the bonus dollar amounts under discussion are sizeable, and we recognize that, they are paid to seasoned and successful executives in recognition of solid and significant contributions to public service. And they pale in comparison with compensation and bonuses common to executives with similar credentials working in the private sector.

Good government is a reflection of the people who make it that way and their competency, their dedication, their leadership are essential to the Department of Veterans Affairs as they are to the government at large.

VA remains committed to the statutory imperative of executive bonuses to both reward and to encourage continued excellence in performance.

Mr. Chairman, before I conclude my remarks, I would make the point that I understand some of the issues raised and I look forward to the discussion. But I would recognize as my full statement submitted for the record points out that we are serving this year 5.8 million veterans in our healthcare system, a record, more than ever before 5.8 million veterans are being seen at what is touted in many publications as the best healthcare system in the United States, the best healthcare system in the United States.

As indicated in my testimony, there are millions of people, millions of veterans and their survivors and dependents who are receiving compensation and pension checks each and every month. There are hundreds of thousands of individuals, active duty and

veterans who are getting new houses, a place to live through the VA Housing Program. There is an insurance program that would make us the sixth largest insurance company standing on itself. And, again, I would just make the point that these are good, honest, dedicated, hard-working leaders who have been able to be identified and that takes a special process itself as Senior Executive Service members, members of the Senior Executive Service—

Mr. MITCHELL. Thank you.

Mr. MANSFIELD [continuing]. Have a special place in our workforce. And, Mr. Chairman, that concludes my prepared remarks and I will attempt to answer any questions you may have.

[The prepared statement of Mr. Mansfield appears on p. 44.]

Mr. MITCHELL. Thank you. Your testimony was a good overview of what your Department does.

And all the things you said toward the end of the people that are serving and so on, I just assume you do that because that is your job, that is your responsibility. And that is the charge that Congress has given the Veterans Department.

I have a series of questions which will take very simple answers. In the documents that the VA has provided this Subcommittee, it does not appear you had any role in reviewing the bonuses; is that correct?

Mr. MANSFIELD. No, that is not correct. As the Deputy Secretary and as the Chief Operating Officer, I accept responsibility for what operates in the Department. The process is set up so that an Assistant Secretary who is an expert and has experts to work with him in this area gets the information, does the process work before that final document goes to the Secretary—

Mr. MITCHELL. So you reviewed all of the recommendations for the bonuses; is that correct?

Mr. MANSFIELD. I review the initial submission that goes to the Secretary for his decision and I review what goes to the Chief of Staff for his discussion with the Secretary of what the final answers are.

Mr. MITCHELL. Did you serve on any of the PRBs, the Review Boards?

Mr. MANSFIELD. No, sir, I did not.

Mr. MITCHELL. Then did you read the recommendation memo that you sent?

Mr. MANSFIELD. Sir, I am having a little trouble hearing.

Mr. MITCHELL. Did you read the bonus recommendation memo that evidently you sent to the Secretary? Did you advise the Secretary on all the bonuses? Did you advise the Secretary on these bonuses?

Mr. MANSFIELD. In the fact that I forwarded the final document, yes, sir.

Mr. MITCHELL. And did you recommend any changes?

Mr. MANSFIELD. The question is again, sir, to the operation of the statute and the regulations and the VA setup where the Secretary makes the final decision.

Mr. MITCHELL. Correct. And he makes the final decisions on all SES bonuses. And, you know, the Subcommittee did invite the Secretary to come to this hearing. Do you know why he is not here?

Mr. MANSFIELD. Not available to make it, sir.

Mr. MITCHELL. Pardon?

Mr. MANSFIELD. Not able according to his schedule to make it, sir.

Mr. MITCHELL. We mailed out the invitation May 24th.

Mr. MANSFIELD. I do not have a specific, you know—

Mr. MITCHELL. All right.

Mr. MANSFIELD. I will go back and ask him and come back and give you an answer.

Mr. MITCHELL. Very good. So the Secretary was provided a memo with all the recommended bonuses? He has it all?

Mr. MANSFIELD. Again, sir, I—

Mr. MITCHELL. The Secretary has provided a memo of all the recommended bonuses; is that correct?

Mr. MANSFIELD. Yes.

Mr. MITCHELL. Does the Secretary of Veterans Affairs have a memo of all the recommended bonuses?

Mr. MANSFIELD. All the recommended bonuses went to the Secretary and were finalized by him.

Mr. MITCHELL. Okay. And that memo includes the ratings outstanding, excellent, fully satisfactory, but, otherwise, no information about the PRB recommendation in any particular bonus is listed; is that correct? Is there any information listed besides outstanding, excellent, fully satisfactory? Is there any justification for these?

Mr. MANSFIELD. In the final decision memo that goes to him, as you indicated, that is the clear memo. The information from any of the PRBs is available if requested or if needed.

Mr. MITCHELL. But what he receives is only outstanding, excellent, or fully satisfactory; is that correct?

Mr. MANSFIELD. Yes, to the best of my knowledge.

Mr. MITCHELL. That is all? So there is no particular followup that he has with his recommendation?

Mr. MANSFIELD. Well, he has his knowledge of the Department and what has happened in different parts of it and who is doing what type of a job and any recommendations that may be presented to him.

Mr. MITCHELL. Okay. Did you actually read the write-ups for the individual justification for each bonus?

Mr. MANSFIELD. No, sir, I did not read all of them.

Mr. MITCHELL. Did the Secretary read them?

Mr. MANSFIELD. That I do not know, sir.

Mr. MITCHELL. Let me ask this then. How is the Secretary supposed to meet his legal obligation to decide on bonuses if he knows nothing about the justifications for the bonuses?

Mr. MANSFIELD. Well, again, sir, these bonuses are performance driven and depend on a combination of what the Department has done in total and how that is measured. And that is handled through a monthly performance review which measures across the Department on what we are doing in specific areas and where we are having problems and any corrections that need to be made over the course of the year.

It deals with the strategic plan which the Secretary signs off on and it is his direction for the total direction of the organization. It

depends in some cases on employee satisfaction and there are reports from OPM that come in that——

Mr. MITCHELL. I understand that. But those justifications are not listed.

Mr. MANSFIELD. It depends on patient or customer reviews——

Mr. MITCHELL. Right.

Mr. MANSFIELD [continuing]. That come in.

Mr. MITCHELL. But all those justifications are not listed with the recommendation, are they? There are just three categories.

Mr. MANSFIELD. Not all in one package, but they are——

Mr. MITCHELL. Okay.

Mr. MANSFIELD [continuing]. A part of the leadership of the Department's knowledge about what is going on in the Department.

Mr. MITCHELL. Are you aware that in the 2 years that Secretary Nicholson has been approving bonuses he has changed only one out of hundreds of recommendations? He has changed one. By contrast, in 2003, Secretary Principi changed over 30 of the recommendations.

Mr. MANSFIELD. Well, part of it as mentioned by the previous testifier, we are in a different system now since 2004. I do not have an exact knowledge about how many that Secretary Nicholson has changed, but I believe it is more than one.

Mr. MITCHELL. Go back and check.

I will yield my time to Ms. Brown-Waite.

Ms. BROWN-WAITE. Thank you.

I do not think you actually answered the question of did you make any recommendations to the Secretary? Did you make any recommendations to the Secretary when the list came down for the bonuses? I listened very carefully and I did not hear a yes or a no answer.

Mr. MANSFIELD. The list went forward with some verbal recommendations from me as to some people on that list.

Ms. BROWN-WAITE. And is this the normal practice? Did you do this with the previous Secretary?

Mr. MANSFIELD. Yes.

Ms. BROWN-WAITE. So you made a few. Define a few for me.

Mr. MANSFIELD. One of the issues of concern is, for example, conformance with IG issues or other reports on performance throughout the Department. And in some cases, there may be IG issues that are under investigation, under review that are not, for example, what we call public knowledge that I would be briefed on.

Ms. BROWN-WAITE. Well, with respect to the bonuses given to senior staff at the Asheville Medical Center during the 2004 to 2005 timeframe, given that the Office of Medical Inspector was notified and began an investigation on November 30th, 2004, why were allegations of possible patient care issues not made known prior to the final Senior Executive bonus approval decision in December and again in December of 2005 after the final OMI report was issued? Is there some reason why, for example, this was not part and parcel of that process? We are talking about quality of care which certainly should be part of the criteria.

Mr. MANSFIELD. I agree with you a hundred percent. I am sorry. I would agree with you a hundred percent that quality of care is one of the issues we are concerned about, one of the biggest things

we are concerned about. I am sorry. I do not have all the facts and figures for Asheville in front of me, but I would be prepared to go look at that and come back and report to the Committee or to you, however you should like that handled.

Ms. BROWN-WAITE. I believe that there were already letters written by individuals as well as Members of Congress about the quality of care at that facility. And, yet, the Director got a very sizeable bonus.

Mr. MANSFIELD. I do not have all the facts in front of me, Madam Congresswoman. I would, as I said, go back and look at that and answer the question for the record or if you wish for me to come and speak to you, I would do that.

Ms. BROWN-WAITE. No. I would like you to submit subsequent testimony on that very situation in North Carolina.

[The following was subsequently received from Mr. Mansfield:]

In August and December, 2004, the Office of the Medical Inspector (OMI) conducted site visits in the Asheville VA Medical Center (VAMC) Nursing Home Care Unit (NHCU) also known as the Extended Care Rehabilitation Center (ECRC). The purpose of the visits was to review the quality of care in the ECRC. That reports made several recommendations for improvements which were implemented (some of which were implemented within hours of the OMI notification of the issue). In addition, a third OMI report was conducted in July 2005 which revealed clinical leadership issues. These were addressed immediately and the clinical managers who were involved eventually left the VA.

The nursing home was closed for admissions from December 17, 2004–January 28, 2005. One of the recommendations from the OMI was to detail an Associate Chief Nursing Service (ACNS) and Geriatrician to the facility to work with the facility as they addressed other recommendations. On January 23, 2005, VHA detailed the ACNS for Geriatrics from Durham VAMC and a Geriatrician from the Detroit VAMC to the facility to provide temporary clinical leadership. On January 28, 2005, this team provided an exit report to Asheville VAMC Leadership and conducted weekly calls to monitor the implementation of their recommendations for improvement. One of the recommendations included approval for limited admissions (no more than one per week per month) beginning with admissions to the ECRC rehab program starting on January 28, 2005. On March 10, 2005, additional admissions were approved for ECRC skilled nursing, restorative and maintenance programs. On May 31, 2005, admissions were opened to the ECRC respite program and admissions were increased to four residents per floor per week. On August 3, 2005, admissions were opened to the ECRC hospice program. Nursing Leadership monitors ECRC staffing levels on a daily basis.

While the OMI review and results were taken into consideration when rating the Director's FY-2005 performance, other factors were also considered. For example, among other accomplishments under his leadership that year, the Medical Center successfully received full Joint Commission on the Accreditation of Healthcare Organizations (JCAHO) accreditation in all programs, achieved Level 1 scores (highest level) in clinical performance levels, reduced waiting lists, scored among the highest Medical Centers in patient satisfaction and held pharmacy costs to just a 1.27% increase while providing over 50,000 more prescribed drugs than in previous years. The Director also led the Medical Center through flood disasters that resulted from hurricanes, where the hospital was without water and power for extended periods of time.

This timeframe encompassed the FY-2005 rating period and the Director in charge of Asheville VAMC during this period received a performance rating of Excellent.

This rating decision included consideration of the OMI reviews. His prior performance ratings had been Outstanding in FY-04 and Excellent in the two preceding years.

The VHA did not diminish the importance of the OMI findings when considering the rating and performance bonus for the Medical Center Director, however it did consider all of the other positive accomplishments that oc-

curred during that same time period. The bonus he was granted was comparable to other Medical Center Directors in Veterans Integrated Service Network (VISN) 6 who also received a final rating of Excellent.

That Director is no longer with the Asheville VAMC having retired on March 3, 2006.

Ms. BROWN-WAITE. The other thing I want to know is, do you think that the IG should review the list of bonuses prior to the approval of the Secretary to set up some sort of an early warning system that there is an ongoing investigative issue?

Mr. MANSFIELD. That does happen.

Ms. BROWN-WAITE. So that does happen now. Could you tell me what the process is.

Mr. MANSFIELD. The Assistant Secretary for Human Resources Administration who in effect is the Secretary or the person in charge of the process, the paperwork, contacts the IG, shares that information with him, and gets a report back or I get a report back on any issues that may be of concern.

Ms. BROWN-WAITE. So is this actually taken into consideration?

Mr. MANSFIELD. Yes, ma'am.

Ms. BROWN-WAITE. So have bonuses actually been reduced as a result of an ongoing investigation or the conclusion of an investigation which was not very favorable?

Mr. MANSFIELD. Yes.

Ms. BROWN-WAITE. Could you also tell us how many SES employees in your agency have been reduced in rank and/or salary and/or fired? And if it involved a transfer, which I know that the VA is known for transferring people, was it under adverse conditions?

Mr. MANSFIELD. Obviously I do not have that information—

Ms. BROWN-WAITE. I know you do not, sir.

Mr. MANSFIELD [continuing]. Right in front of me, but I can tell you that some of each of those categories have taken place and that I will get the information for you.

Ms. BROWN-WAITE. Okay. I would appreciate it.

Mr. MANSFIELD. Let me just make a point, though, that it is awful hard to terminate anybody in the Federal Government.

Mr. MITCHELL. Even SES?

Ms. BROWN-WAITE. Even SES, the Chairman asked.

Mr. MANSFIELD. Including SES, yes. They still have appeal rights to the Board.

Ms. BROWN-WAITE. I know they have appeal rights, sir, but we are talking about competency here. And I think that this is a question which deserves an answer and I would appreciate your getting back to us on it.

Additionally, Mr. Chairman, just one other quick question.

OPM recently wrote back to Secretary Nicholson with some findings and recommendations. The Secretary had asked OPM to conduct a comprehensive review of the systems and policies that VA has in place to operate its performance management system for Senior Executives.

It is relatively new. Their response was dated June 1st. As soon as possible, I think that the Committee deserves to have shared with it the responses of the Secretary to these recommendations.

Mr. MANSFIELD. Yes ma'am.

Ms. BROWN-WAITE. I yield back.

Mr. MITCHELL. Thank you.

Mr. SPACE.

Mr. SPACE. Thank you, Mr. Chairman.

Notwithstanding what may be a policy problem that I view with giving taxpayer moneys away in the form of bonuses, I have some questions about the independent nature of these Performance Review Boards.

Is it not true that, I think, three of the four PRBs are comprised entirely of departmental employees, VA employees?

Mr. MANSFIELD. Yes.

Mr. SPACE. Do you see that as creating the appearance of impropriety or a conflict in asking VA departmental employees to make assessments regarding their own peers without any independent oversight?

Mr. MANSFIELD. I understand that there has been discussion staff to staff and I understand the issue you are raising here. But I would make the point that, for example, since many of us come out of the military, the military seems to do it that way when you are doing officer reviews, for example, and that is a point.

We are dealing with the most senior, most qualified, most professional part of the government. We are dealing with some cases with the healthcare arena and a benefits arena. So I can see reasons why it has come up that way. But I also understand the question being raised and I would be, as I have explained, more than happy to bring that one back and talk to the Secretary about it and see if there are reasons on why we should change it and, if so, how.

I think also we have to recognize that we are in OPM's area here and I am not sure how many other agencies do it that way either.

Mr. SPACE. And it just seems to me that a system that is comprised wholly of departmental employees, many of whom know each other, I am quite certain that those members of these PRBs are colleagues of one another, that that creates a system that is bound to encourage some peer pressure among departmental employees to essentially take care of each other.

And, again, apart from what I see to be an inherent problem in creating a system that uses taxpayer moneys to provide bonuses in a subjective fashion regardless of the number of criteria, it is difficult to argue that it is not a subjective process.

I would think that bringing some independence to the system of review would be appropriate. Is it fair to say that that is an accurate statement, that some level of independence would be required to assure the taxpayers that their monies are being well spent?

Mr. MANSFIELD. As I indicated, I understand the issue that you are raising and I would be more than happy to bring that one back, sit down and look at it, talk to OPM. And I understand what you are saying that bringing to bear some outside influence may make the system work better.

Ms. BROWN-WAITE. Mr. Chairman, I have to leave for an amendment on the floor. I would ask the gentleman if he would suspend and I would also ask if the Members would give unanimous consent. Obviously we are kind of missing some Members here who also are on the floor or in markups. And if the Committee would allow Mr. Wu to continue to ask questions in my absence.

Mr. MITCHELL. If there is no objection, so ordered.

Mr. SPACE. No objection.

Ms. BROWN-WAITE. I would appreciate that. Thank you. Thank you for suspending.

Mr. SPACE. You are welcome.

And I yield back my time, Mr. Chairman. Thank you.

Mr. MITCHELL. Thank you.

Mr. Walz.

Mr. WALZ. Thank you, Mr. Chairman.

And thank you, Secretary Mansfield. First and foremost, your commitment and dedication to this Nation and our veterans will never be questioned. The service you have given to this Nation and the service you have given to our veterans is not at issue here. I think that needs to be made very clear.

I appreciate you and your staff coming up here. And I hope you understand and see us as allies in this to try and deliver the best possible service to our veterans.

And one of the things that I am very happy to see you talked about in there was good government, Secretary, and we believe that one of the key roles and one of the things, quite honestly, many of us here feel have been missing is oversight. And that is one of the key responsibilities of a Member of Congress.

So please understand we are here to ask these questions to be allies with you, teammates with you, do whatever we can do to try to get to the heart of this. And I hope you will understand that the concern of this, not just as Members of Congress and oversight, but from our veterans' groups, quite honestly, it has been made very loud and clear to us.

So I appreciate where you are coming from on this, but I hope you can understand at least public perception-wise why this is such a pressing issue and why we brought you up here to talk about these. So, please.

And a couple of things. I would have to be quite honest. Many of us believe and we have seen this with declining budgets in terms of what the real need was. You are exactly right. You are servicing more veterans and with more critical issues spread across a broader spectrum of issues than at almost any time before.

And your organization in the VA is doing so brilliantly. I will say that we understand that. But there are glaring examples of where we can do better and that is what we are trying to get at.

And in my case, I guess, I do not want to speak for anyone else up here, especially in some of the senior positions, there is a belief that they need to tow the Administration's budget. They need to tow on where things are coming into the VA and saying that is enough money, you can do it.

When I hear you say one of the issues is 750 to 1 in the span of control, I agree with you. That is ridiculously high. But the fix on this, I do not believe is trying to give a bonus to keep somebody around to get there. The fix would be can we provide more staff for oversight. Is there a better way or is there an organizational fix other than that.

The next thing I would say is this is very difficult for me to try to sell back home when I go to my VA facilities and talk to my RNs who have a shortage of nurses and want to know. Now, you may

say it is a different budget, it is a different issue at hand, we have the supervision of that.

The public does not care about that when they are asking why is there a shortage of nurses, why am I waiting 177 days as an average to have my claim adjudicated, and I see that the entire top of the organization received bonuses. That is one of the issues.

We keep coming back to this issue of pay parity, but bonuses have nothing to do with pay parity. The bonuses are performance. If we have an issue with pay parity, ask us to fix that, ask Congress to fix it. Then we do not get ourselves caught in these jams where the perception of the organization is handing out favored bonuses when the organization is not performing all the way across the board.

And I just kind of want to turn it over to you on that because I want to make it very clear, Mr. Mansfield. The work you do for veterans, I applaud you. You are doing. As a veteran, I know that. We are trying to make it even better. And I think and my perception of this was these bonuses are making it harder for us to do our job and that is why we want to get to the heart of this.

So I am not asking you a specific question on this. I am not putting you on the spot on this. I just want to make it very clear what I am hearing from my constituents, what I as a veteran see in this, and what I see our responsibility is in working with you.

Mr. MANSFIELD. Well, thank you, sir, number one, for the personal comments. I appreciate that.

I would also make the point as I made many previous times at this witness table that I understand and respect and am honored to be able to participate in what is a constitutional process. The executive branch represented here and you folks represented there and I do understand how the process is supposed to work and appreciate that. And I do understand and agree that when it works right, veterans are the ones that benefit from it and that is what we both want. And I understand that is what you want and that is what I want.

Mr. WALZ. Thank you.

I yield back, Mr. Chairman.

Mr. MITCHELL. Thank you.

Mr. Hall.

Mr. HALL. Thank you, Mr. Chairman.

I would echo Mr. Walz's statement. Thank you for your service and certainly, you know, as a man in uniform and also in the Department of Veterans Affairs, no one questions your commitment to veterans and to this country.

And so we are all of us trying to represent our constituents and also to do what we can to try to make the system work better.

I am happy to see in your written statement that bonuses are based on one and only one criteria, demonstrated performance and that is as it should be.

When Secretary Nicholson was in this room, he testified that the 177-day waiting time for a disability claim to be processed was unacceptable in his words. He suggested that 125 days might be acceptable, nearly 2 months shorter than the current average.

So, with so many of the top positions here in the Department being graded as excellent, but a key area like that being unaccept-

able, my question is, which is it? I mean, is there a systemic problem or is there a person who maybe was graded excellent who should have been graded unacceptable? How can a performance standard like that be unacceptable when it seems that across the board, there are bonuses being given?

Mr. MANSFIELD. First of all, sir, I think we have to recognize that what we are judging is a person across the total package, individuals with different responsibilities, and some of it could be actually doing cases, some of it could be training, some of it could be budget work, some of it could be public affairs, some of it could be sitting at this table.

So there are all kinds of different elements that go into this. And when you get to the Senior Executive Service, you have I believe, the best of the best, those that by their experience and their capabilities and their ability to go out and get extra training and move into this, you are dealing with good people.

I have to tell you I am a little concerned that we are getting into an area where we are almost naming some people. They have been named in the press, I think unfairly and unmercifully, and that is a concern.

The other issue, though, when you are talking about the 177 days, I would suggest to you that part of that is the result of laws that this Congress has passed because you believe that certain aspects of the process for the veterans benefit require additional time, additional waiting, up to 60 days waiting time for evidence to be submitted.

And in addition to that, there are some court cases that have also extended this time. So it is not as simple as just one issue and we recognize that.

The other point I would make is that while we are talking about the so-called backlog in the traditional area of compensation and pension, that backlog right now is about 159,000 cases because we agreed and Congress agreed in oversight hearings a few years ago under a previous Secretary that 250,000 cases in the inventory is what we should have. Now we are up around 399,000 or more.

So we have done an awful lot to keep things moving. This year should be a record, over 800,000 cases decided, more than for quite a while.

And I would make the point also that in addition to just the number of cases, 800,000, the number of issues per case has increased exponentially. And our Benefits Delivery at Discharge Program, over the course of 4 years of implementing that and putting it in practice, we have seen the average number of issues per case grow from three or four to seven or eight. That in effect doubles the number of cases you have to deal with. You may require twice as many medical exams to be able to have the information at hand to make a decision.

I am not trying to excuse the fact that we are not where we should be, the Secretary said we are not where we should be, 177 days is too long. We have made some adjustments, for example, to bring Gulf War on Terrorism veterans, those coming back, those veterans, men and women, coming back from the combat zone, to put them at the head of the line and be able to adjust for their adjustment back into civilian society.

We are not where we should be, but we are working awful hard to get there. And I would still say we have some damn good people who are doing the job and I believe that they are damn good people. And I do not believe that we need to take it from exceptional down to throw them out the door.

Mr. HALL. I do not think anybody is suggesting that, sir.

Mr. MITCHELL. That is not the alternative. That is extremes.

Mr. HALL. Mr. Chairman, may I ask a second question, please?

In a full Committee hearing on May 9th, Secretary Nicholson stated that no political appointee at the Department has received a bonus. However, CRS research found a staff member, Paul Hutter, who received a bonus as having a PAS designation. Furthermore, there are White House releases from June and September 2006 announcing the President's designation of Mr. Hutter to two positions.

Do you know if Mr. Hutter was in a PAS position at the time that he received his bonus and can the Department clarify his status?

Mr. MANSFIELD. Sir, I am under oath and I would have to go back and check the record for that one.

Mr. HALL. Okay. Thank you.

I yield back. Thank you, Mr. Chairman.

Mr. MANSFIELD. And report back obviously.

Mr. MITCHELL. Thank you.

I want to go back to what Mr. Hall was asking and part of my opening statement. And I am going to read this again.

When the backlog of claims has been increasing for the past few years and the trend is up every year, one would not expect the senior most official of the Veterans Benefit Administration to receive the maximum bonus when the trend is going away from what we would like, yet this person received the maximum bonus.

When the VA is forced to return to Congress for additional money, which happened twice in 2006 because the budget submitted to Congress was inadequate and the VA failed to keep Congress informed, yet this person who is in charge of that received the maximum bonus.

Is that what you would call good pay for performance? And I am not saying these people do not do a good job. I would say there are probably many people throughout the VA who get no bonuses that are doing terrific jobs.

Mr. MANSFIELD. Mr. Chairman, I—

Mr. MITCHELL. We are talking about exceptional. Yes.

Mr. MANSFIELD. Mr. Chairman, I understand the point you are making. I agree with you. And I would also make the point that we do need to go back and look at that. I am making the point that you made. We have some good people working for us and let us make sure we do not take the wrong information and arrive at the wrong decision on that.

Mr. MITCHELL. No. We are just talking about bonuses. We are not talking about the performance of the people in your Department.

Let me ask a couple other questions. This Subcommittee has cross-referenced reports from the Office of Medical Investigations and the VA Inspector General to the bonus recommendations. Does

the VA do this? Do you cross-reference what the Office of Medical Investigations and VA Inspector, do you cross-reference these in making your recommendations?

Mr. MANSFIELD. Sir, as I indicated, there is a final review by the IG when we get through the total process. My understanding is that at the local level, at a hospital or VISN level, that OMI information is taken into consideration. But, again, being under oath, I would go back and check the record and submit that one.

Mr. MITCHELL. The Subcommittee has found four or five instances where bonuses were awarded to employees with direct authority over VA facilities that were subject to highly negative OMI and IG reports. Are you aware of this?

Mr. MANSFIELD. I am aware of some staff decision and some briefings I have had in preparation for coming up here, sir. And, again, considering the circumstances, I probably want to go back and submit an answer for the record.

Mr. MITCHELL. I believe that what I have been briefed on says that it may be a question of timing. The incident happened. The person responsible went somewhere else. Somebody else came into the same facility. But I would request to submit for the record the answer on that one.

Let me ask your opinion. Do you believe that the VA, when it makes its bonuses and recommendations at the end of the year, do you believe that they should have the OMI and IG reports in front of them when they are making these recommendations?

Mr. MANSFIELD. Yes, sir. That could be a process change that we would guarantee that those were—I do not think at the end, though. I think what we want is to have them involved in the early discussion and decisionmaking stage to make sure that the people that are making the first set of decisions are aware of that where we can have that.

Mr. MITCHELL. Okay. Thank you.

Mr. Wu.

Mr. WU. Chairman Mitchell, I appreciate your indulgence in Ms. Brown-Waite's request for staff to ask questions.

And, Mr. Hall, thank you for your indulgence also.

I understand what Ms. Brown-Waite has been asking and what Chairman Mitchell has been asking and in consultation with Ranking Member Buyer about this entire bonus process.

And I just would like to reiterate what I have heard other Members say and the Chairman and the Ranking Member that this hearing for us is not to denigrate the hardworking employees at VA, and there are many, and the mission that they accomplish. But it is here for our purposes on this side to look at what is dysfunctional about the process.

And without trying to indict by anecdote, there are a variety of bonuses here that in the personal opinion of the staff and myself in review and in consultation with your staff bringing to question how those bonuses are awarded by some measurable performance metric. There are others in there that they probably walk on water and deserve more.

But there is a process that we think probably needs to be repaired and I would bring to mind what Ms. Brown-Waite said. In referencing the letter to Secretary Nicholson by Ms. Springer from

OPM dated 1 June about the review that Secretary Nicholson asked right after the negative articles came out to take a look at the system to see how copasetic it was.

And they came up with findings that said that you were involved and the Department was doing the process that was certified, but they came up with four distinct recommendations that talk and link performance, individual performance to institutional performance.

And I guess what Ms. Brown-Waite would like to know, not guess, but she said we would like to have a report back of those four recommendations and when the Department intends on implementing by specific hard milestone dates and take seriously what OPM's recommendations to cure or to address some of those issues.

So I would just reiterate that Ms. Brown-Waite would certainly like to see that and I think that at the same time, Mr. Buyer would like to see that also.

Mr. MANSFIELD. Let me make sure that you and the Committee Members understand. I did not mean that the Committee Members were denigrating anybody. I meant that the publication indicated some people individually was denigrating them and I think unfairly. And that is a problem with me since I know who these people are and I know how hard they work and I know how dedicated they are and how much they care and they do a good job. So I hope that message did not come across.

I believe that we are here to do better. I believe that we are here to make the constitutional process work with the goal of service and benefits to veterans being improved. And that is what my goal is being here.

So I understand what you are saying. My testimony indicated that Secretary Nicholson in his review of the information has said that we will adopt them. I will give you an exact date, you know, some date certain as to when we can do that.

I would imagine that when you look at what we are talking about here, the four on page 46, that the next go around for this, we should be able to get these in place for the next process.

Mr. WU. Right. That was the bottom line. These new processes and recommendations would be in place before the next bonus reviews.

Mr. MANSFIELD. Well, again, this is the Secretary's system. He said that he will implement them. I will double check that we will get them done. I do not see any reason why we cannot get these implemented in the next—

Mr. WU. I would like to revisit one of Ms. Brown-Waite's questions on the IG review or OMI review that Chairman Mitchell has also addressed.

It is my distinct memory when we were briefed by VA staff prior to this hearing when that question came up whether the IG gets to review all bonus recommendations prior to the Secretary's approval so as not to embarrass the Secretary on approving a Presidential award of \$44,000, that there is some criminal investigation going on on that individual. It would behoove the Department to have the IG and other review mechanisms in place prior to the Secretary putting ink to the paper.

Mr. MANSFIELD. As I indicated in my answer, that does happen now and has been happening.

Mr. WU. Ms. Brown-Waite wanted to know when that happened because when we were briefed, the staff said they were not sure if it was happening and they would go back and check.

Mr. MANSFIELD. Well, I know it is happening because I have been involved in it. So you want a date certain on when something went over?

Mr. WU. She asked when there was a review by the IG prior to—does the IG get to see the recommended list prior to the Secretary signing the final—

Mr. MANSFIELD. All right.

Mr. WU [continuing]. And when did that happen. And I would like to address a second question. I know I—

Mr. MANSFIELD. I would like to make sure that I finish the answer to the first one—

Mr. WU. Yes, sir.

Mr. MANSFIELD [continuing]. Which is to make sure that—you mentioned a dysfunctional system. I hope you do not understand that you think that we come up here and say we got an OPM report and we are perfect. We understand that we have a massive organization spread all over the place out there and that there are potential issues involved in it.

But I would make the point that we are attempting as much as we can to make sure that this system works the way it is intended to work, the way the statute that this Congress set it up with implies that it should work, the way the OPM rules work.

So, again, I do not think it is a dysfunctional system. We may have some questions about what some of the final results are here, but I would hope we would agree as OPM says that basically the system is working.

There are some issues here, Mr. Chairman, that you brought up and other Members have brought up that we have agreed to look at, some of them in these recommendations to put in place to again make it better if we can do that.

Mr. MITCHELL. Thank you. Just one comment before we end.

Again, about the denigration of individuals. You know, these individuals that are listed here with the bonuses, they did not give themselves the bonuses. The system did and that is what we are trying to correct because we think that in some cases that people should be held responsible for, as you said, accountability and that you had some performance measures and that when we find some things that seem to be going backward instead of the way we would like and that is wait time and so on and budget processes, it is not these members' faults who got the bonuses. I think it is those people above them who were operating the system and that is what we are trying to correct.

Mr. MANSFIELD. Well, sir, there are two points. One is there are performance measures that are in place throughout the Department. As indicated by the previous testimony and as indicated in some of the OPM reports and in the certification letter, we need to do a better job of bringing those metrics down into the individual SES performance review to ensure that in addition to the Department requirements, which is a part of the certification, that we

have—I agree with you—we need to do a better job with the metrics for the individuals.

Mr. MITCHELL. That is right. And I think also those at the very top of the central office ought to have some metrics to measure them by as well which today they do not.

Thank you very much for your testimony and this ends the testimony for panel two. Thank you.

Mr. MANSFIELD. Thank you, Mr. Chairman.

[The U.S. Department of Veterans Affairs provided a large notebook of documents to respond to the many requests for information during the hearing.]

Mr. MITCHELL. We will now proceed to panel three. Carol Bonosaro is the President of the Senior Executives Association (SEA). The Senior Executives Association acts as the voice and advocate for the career Executive Corps. We look forward to hearing her view on VA's process for awarding SES bonuses.

I hope I pronounced your name correctly.

Ms. BONOSARO. Absolutely.

Mr. MITCHELL. Thank you. You will have 5 minutes. Thank you.

STATEMENT OF CAROL A. BONOSARO, PRESIDENT, SENIOR EXECUTIVES ASSOCIATION

Ms. BONOSARO. Members of the Subcommittee, the Senior Executives Association, the professional association representing the interests of the career Senior Executive Service, appreciates the opportunity to testify, and I ask that my written—

Mr. MITCHELL. Excuse me. I do not think your microphone is on.

Ms. BONOSARO. Well, it has the green light on.

Mr. MITCHELL. Oh. Maybe bring it closer.

Ms. BONOSARO. We appreciate the opportunity to testify, and I ask that my written testimony be entered into the record.

As previous witnesses have testified, SES performance awards are made with substantial oversight by Performance Review Boards. In every agency, PRB members must and do exempt themselves from decisions about their own performance appraisals and awards.

Some in Congress have called for PRB members to be ineligible for performance awards. That would be a serious mistake in our view. Agencies select their highest performing career executives as PRB members as impartial jurors of their peers. Excluding them from receiving awards will result in only those executives not recommended for awards being eligible to serve and the quality of service may well be lessened.

Further, who would wish to accept appointment to a PRB when it would make them ineligible to receive an award?

We believe that the publicity surrounding bonuses has been unfair and misdirected. All Americans desire to give our veterans the best care and service possible and none more than the VA career executives who dedicated their careers to doing just that and who are well worth their salaries and awards.

Representative Hall has said he would be introducing legislation to place a hold on this year's performance awards. Restricting awards because of disagreement with policy decisions will unfairly punish career executives and achieve nothing in relation to those decisions.

As the Subcommittee is aware, career executives work at the direction of political appointees. Concerns with Administration decisions to request less money than is believed needed for healthcare and claims processing should be directed at the Administration's policymakers, not at the career executives who are required to implement their decisions.

The SES was created in 1979 to encourage and reward the highest performers in government. It provides both greater risks and greater rewards than the General Schedule. All pay raises and all awards are discretionary and are made on the basis of performance. Senior Executives do not receive locality pay. They do not receive within grade increases. They do not receive an annual cost-of-living increase.

If a Senior Executive is not rated as fully successful or better, his or her salary can be decreased as much as 10 percent. Those rated fully successful often do not even receive an increase in salary that covers increases in the cost of living.

Senior Executives have no appeal rights if they are removed from the SES or Federal service for poor performance. All of this is unlike the General Schedule.

With regard to IG investigations, I would point out to you that bonuses and even Presidential Rank Awards have been denied to SESers due to ongoing investigations. However, those SESers who have been exonerated following those denials have been unable to be made whole later. So I would urge the Committee to tread carefully in that regard.

High-performing career executives can and often do receive substantial pay raises or performance awards. Up to 10 percent of a Department's or Agency's SES pay pool can be set aside for annual performance awards of from 5 to 20 percent of a career executive's salary. As one would expect, top performers consistently receive awards which are central to keeping them in the VA and throughout government.

If Congress decides to limit performance awards, the best career executives will have another incentive to leave for the private sector or retirement rather than continue to work in a system that provides only a mere fraction of the compensation they are worth and can earn in the private sector, often 100 percent more. Many career SES earn as much as \$70,000 a year less than some of the VA medical staff that they supervise.

These performance awards are not lavish frills and limiting them would be particularly unwise since 90 percent of those in the Senior Executive Service are eligible to retire over the next decade.

Further, SEA consistently receives reports that many talented and accomplished GS-14's and 15's who would be prime candidates to the SES are dissuaded from aspiring to the Service since they would take on additional responsibilities, enjoy fewer rights, and their pay adjustments would be far less reliable.

As a former career executive myself and as President of SEA for 20 years, I can assure you that these career executives are driven by a love for public service over financial gain. They are dedicated to their work and putting in 70-hour weeks is not rare. They make the best decisions possible with the resources they are provided.

Thank you.

[The prepared statement of Ms. Bonosaro appears on p. 48.]

Mr. MITCHELL. Thank you.

Let me ask a couple questions. Would you agree that the bonuses in question are for the purpose of rewarding exceptional performance and not used to reduce disparity between government and private sector compensation?

Ms. BONOSARO. Yes. That is the purpose they are intended for, but I will point out to you, sir, that until really 2005, because it took about a year for the new pay system to be implemented, 70 percent of the members of the Senior Executive Service were all drawing the same salary.

In that case and because so little wiggle room, if you will, has been created, in fact, by the new higher limit, which is \$12,500 more between a certified and uncertified agency, that it was not uncommon since so many of them are indeed high performing to look to that bonus pool as a way of dealing with pay compression and now, of course, the lack of locality pay as well.

Mr. MITCHELL. Let me ask you this—

Ms. BONOSARO. I am not suggesting that is what they do, but that is—

Mr. MITCHELL. Well, it sounds like it. Let me ask you this. Would it be a violation of statute and regulations to use bonuses for purposes of reducing such disparity?

Ms. BONOSARO. Would it be illegal?

Mr. MITCHELL. Yes.

Ms. BONOSARO. I do not know. I think I would ask my general counsel that because—

Mr. MITCHELL. Well, it is. It is not to be used for pay disparity or for reducing these disparities. Bonuses were for exceptional service. And I have some feel for this because I was a high school teacher and I understand when they talk about people who teach and those who get out because of pay and so on. And I knew what I was going to be paid when I went in and I stuck it out as a career, 28 years.

And I think on the one hand you are saying that these people could be making so much more money other places and they should and we are going to lose them and so on, and then you end up by saying but these people are not here for that. They are here for the love of their work and for what they are doing. You seem to be saying you want the cake and you want to eat it too.

And I come from a background of government service and I understand the dedication of government service, but I think also when somebody comes in and tries to put business practices into government and they come up with pay for performance, the idea of pay for performance is exactly that. It is pay for performance.

Everybody is expected to do an excellent job all the time. That is what they are paid for. They are expected to come to work every day. They are expected to put in a full day's work. That is expected.

But there are some people who go over and beyond and I think you would find that it is probably illegal to use bonuses for reducing this disparity. And I think that is what we are trying to drive at. If there needs to be a pay increase, that is what Congress should be doing.

Ms. BONOSARO. With regard to pay, it is quite true that I have talked about the pay they can earn in the private sector and that becomes a factor as they do consider how long to stay in government.

I think it is clear they are not in government because of the pay, but pay decisions, bonus decisions can be a demotivator. It can be very demoralizing when you know that you have been putting in—I talked to a group of executives last week at Army who said, look, we are putting in 70-, 80-hour weeks. This is a time of war. We love what we do, we care about what we do, but when certain decisions are made that are in a sense not respectful of them, it is demoralizing.

So I just wanted to put that in that context. But also with regard to bonuses, I am not suggesting to you that they are not made on the basis of performance. But when you have a great number of high performers as you do in the Senior Executive Service—because if you did not have that, you would have to question how they were selected to begin with and the selection is very difficult—you expect them to be performing well.

Mr. MITCHELL. It sounds like Lake Woebegone where everyone is above average and it sounds like to me that everybody who happens to be in SES is above average and there is no bell curve going back to my teaching experience.

Ms. BONOSARO. Well, I would argue that actually I do not think there is. I mean, when you look at a basketball team, you do not expect a bell curve of height. When I look at the Senior Executive Service, I do not see a bell curve of competence and capability. They had to work too hard to get there. The requirements for entry are very high.

Mr. MITCHELL. Thank you.

Mr. WU.

Mr. WU. Thank you, Chairman Mitchell.

Ms. Bonosaro, I think that we had SES Association testify one time before this Committee about 8 years ago. I appreciate your 27 years there.

Where were you an SES just out of curiosity?

Ms. BONOSARO. Well, I started my career at the then Bureau of the Budget, but I ended it at the U.S. Commission on Civil Rights.

Mr. WU. Just out of curiosity, I do not think that anyone here in our Members and speaking for our side of our Members are saying that SESs are not the cream of the crop, and there are many there.

But at the same time and reflecting on what Chairman Mitchell said, there is a bell curve. There are good SESers and there are marginal SESers. I mean, it is just going to be that way. That is the universe there.

I know that you defend and you represent that constituency. Just out of curiosity, do you know how many VA SESers that the SES Association is representing for adverse personnel actions?

Ms. BONOSARO. We do not represent any individual.

Mr. WU. But you provide counsel for those that are appealing their SES or whatever personnel actions are at the VA?

Ms. BONOSARO. No, sir. There may be some confusion. Our General Counsel is under contract to us and he provides services to us.

He has a law firm and who that law firm represents is a matter of his service as an attorney. That has nothing to do with the Senior Executives Association.

The most that we do is if a member calls, for example, and says I have had a notice of an action, what do you recommend I do, we have someone on staff who gives them advice, but it is not as an attorney. It is not representation.

Mr. WU. But would you clear up a perception for me at least. You said in your testimony that there are no appeal rights?

Ms. BONOSARO. Correct, not for removal, nothing effective. I believe you can request a hearing at the MSPB. There is no transcript made. So it is a totally ineffective right.

Mr. WU. There are probably several SESers in my memory that were attempted to be removed by the VA for nonperformance and are still within the VA payroll after years.

Ms. BONOSARO. We have had this conversation over the years with political appointees and have always said that our view is if there is a nonperforming Senior Executive and you have made clear what the performance standards are, given them an opportunity to meet them, and they do not do it, then get rid of them.

And there is no reason you cannot. As I say, they have no effective appeal rights. About the only thing they can do is argue a prohibited personnel practice. That is extremely difficult to prove.

So if they are not removed, it is for a failure of will on the part of the appointee who is supervising them, frankly.

Mr. WU. I am not sure if your association keeps any of these statistics, but if you do, just enlighten us a little bit. How many Senior Executives have had a salary decrease as a result of poor performance? How many have been terminated? Are statistics kept concerning poor performance punishments for any of these Senior Executives governmentwide?

Ms. BONOSARO. Well, unfortunately, you are going to have to ask Office of Personnel Management for that. I have not seen the data. I have seen data on average salary adjustments at different levels and so on, but I have not seen the data you have asked for.

I will say one thing, however. Very often instead of taking action, direct action on a removal, what happens, and you may well be aware of this, is the Senior Executive is encouraged to retire. They are proposed to be geographically reassigned. They are sent signals that their life will not be terribly comfortable and most often that is what happens.

So you do not see high numbers of removals, but I would suggest to you that there have been quite a few removals that are hidden.

Mr. WU. Thank you.

Mr. MITCHELL. Thank you.

Mr. Hall.

Mr. HALL. Thank you, Mr. Chairman.

Ms. Bonosaro, thank you for your testimony, and I appreciate your comments that SES members are working 70-hour weeks and are committed to the jobs that they do and are not in this for the money as it were.

Chairman Mitchell, you talked about being a teacher. I was a school board trustee and President where we got paid no money

and for 4 years, I put in a lot more hours than my wife would have liked me to.

And indeed many of us here in Congress are not here for the money either. So I would like to think that that is sort of a common theme that perhaps a lot of us could do better in the private sector.

But our job in Congress is to try to, if there is a problem that we can assist with legislation or providing more funding that we know that and that we do that.

You have not been to some of the hearings that we have been at where we have heard people talk about the areas where the Department of Veterans Affairs is not at its best. There are many areas certainly where it does a very good job.

There is a portability that is the envy of the rest of the health-care system in terms of being able to bring your card to any hospital and have your record called up so that it does not matter if you are on vacation or traveling to visit somewhere else in the country and you have a health problem that you can start by being taken care of by somebody who knows exactly what your history is. And that is not true for many of the rest of us in the public healthcare or HMO world.

But there are some disconnects. Now, those are the things that we are trying to figure out. For instance, if a Deputy Under Secretary of Health takes his position in February of 2006 and in September 2006 gets a \$33,000 bonus which is the largest bonus awarded that year to any official in the Department—you know, I did not get to ask this question before because the first answer took 5 minutes to my first question, but I will submit it in writing—but one has to wonder, you know, what this individual did in 6 months to merit the largest bonus given out in the Department.

When the Deputy Under Secretary for Benefits requested an amount that apparently was less than what was needed to deal with the claims process, which the Secretary admits or himself describes as unacceptable, then he has described his apparently being exceptional in performance in terms of the recommendation for his bonus.

We would give more money if we are asked for it. You know what I mean? If members, if officers or Secretary Deputies, Under Secretaries of the VA come to us and say, help, we need more funding, we need more people, we are not going to hold back on that.

But we have had literally, I think, eight or so different proposals kicked around in the Committee and in the Subcommittees to try to bring the backlog down and to try to shorten the time of the appeals process and so on.

And the answers that we have gotten back in the roundtable that the Chairman of the full Committee, Bob Filner, Congressman Filner, had a couple weeks ago, it seems that what I am hearing, if I heard right, was sort of like, well, we are close to it and we just need to work on this a little more and let the system work a little more.

And so it is frustrating because we go home and we hear the complaints. I understand there are many more success stories possibly than there are complaints, but nonetheless, at a time when the system is taxed and overloaded and stressed, we need to either

be told what solutions we can provide or else we are left to look and wonder if there is more oversight needed. And that is why we are here.

So that was not exactly a question, but you can respond in any way you choose.

Ms. BONOSARO. Thank you.

Well, along the way, you talked about budget and I just want to point out that budget requests are not made directly to Congress by career executives, as you know. I mean, they are vetted, approved by not only the Secretary of the Department but OMB.

And so whether or not a career executive happens to agree with particular budgetary requests, policy, or anything else, ultimately that conversation is had inside the Department. As you know, when they get here, they are going to defend what they are supposed to defend. They work at the direction of political appointees. So, you know, I trust you appreciate that and understand that.

The other point I guess I would like to make is that I think it is very difficult to look at individual bonus awards without literally being in the Department, if you will, and having a greater sense of the day-to-day workings, the week-to-week workings, and the contributions these people have made.

I mean, I guess we would feel a lot more comfortable if you were addressing directly the points that you have been talking about, the claims processing as opposed to going in frankly via the bonus route because I suspect that you could probably conduct the same sort of consideration of other departments' programs and results, other Committees could in the same way by going via the bonus system. And I guess we think you ought to go in the other direction, frankly.

Mr. HALL. Thank you, Mr. Chairman.

Mr. MITCHELL. Thank you.

One last question. You just said, and I understand that, that these people work under political appointees and so they follow the directions of the political appointees.

Would you then follow that their bonuses would be based on political considerations?

Ms. BONOSARO. No. What I am saying is they have given their best advice. They have done their best work. But when a policy decision is made, it is theirs to carry out and to defend it. I do not think that means that their bonuses are made based on political considerations.

Mr. MITCHELL. Well, I only say that because the budget requests that were made by the VA to the Congress were understated and the VA knew they were understated, but they did it because they were hired or their bosses were political appointees. And these very people got the very highest bonus they could get and I assume they were doing their job.

Now, they were doing their job either following the orders of the political appointees which seems to be the case, so—

Ms. BONOSARO. Yes. I would conclude that certainly because their other alternative might have been to come here and suggest something entirely different to you, at which point they would no longer have a job.

Mr. MITCHELL. Thank you. Thank you.

I want to thank everybody who was here and ask unanimous consent that all Members have five legislative days to submit or revise any of their extended remarks. If there is no objection, so ordered.

And this concludes our hearing. Thank you.

[Whereupon, at 4:40 p.m., the Subcommittee was adjourned.]

A P P E N D I X

Prepared Statement of Hon. Harry E. Mitchell Chairman, Subcommittee on Oversight and Investigations

This hearing will come to order.

Thank you all for coming today. I am pleased that so many folks could attend this oversight hearing on “The Process of Awarding SES Bonuses at the Department of Veterans Affairs.”

I know that the VA is full of hardworking, dedicated, and talented people. Nevertheless, there are reasons to be concerned that the VA bonus process is not doing what it should—matching pay to individual and organizational performance. Consider the following: The VA pays the highest average bonuses among all cabinet agencies. In 2006, 87 percent of Senior Executive Service employees who were considered for bonuses received one. Central office bonuses averaged \$4,000 more than field bonuses. Particularly in the central office, there appears to be a case of exaggerated Lake Woebegone syndrome—not only is everyone above average, almost everyone is outstanding. The VA does indeed do an outstanding job in many areas, but not in all, and we hope that this oversight hearing will assist the VA in making sure that its bonuses more closely match its performance.

Performance is not just individual, it is also organizational. The bonus system must allocate responsibility where it lies. When the backlog of claims has been increasing for the past few years, one would not expect the senior-most officials of the Veterans Benefit Administration to receive the maximum bonus. When the VA is forced to return to Congress for additional money—which happened twice in 2006—because the budget submitted to Congress was inadequate and the VA failed to keep Congress informed, one would not expect the senior-most officials of VA responsible for the budget to receive the maximum bonus. This is not a question of blame; it is a question of responsibility. We can be certain that if the senior leaders of VBA know in advance that their bonuses will depend, at least in part, on reduction of the backlog of claims, those leaders will bring all of their creative energy to bear on the problem.

The Subcommittee is also concerned about performance measures for central office employees. VA appears to be doing a commendable job in identifying objective, quantifiable criteria for evaluating its field personnel. The same is not true for the central office. It appears that central office personnel are evaluated on the basis of justifications written by the employees themselves, with no objective criteria factoring into the process. For example, the extent of the backlog of claims at VBA would seem to be one of the most important metrics of performance, but this Subcommittee has seen nothing in the materials provided by the VA that this metric was even considered by the Secretary in deciding the bonuses for senior leaders of VBA. Indeed, it appears that bonuses in the central office are awarded primarily on the basis of seniority and proximity to the Secretary.

We are also concerned about what appears to be a breakdown in the review process. VA is subject to oversight by the VA Inspector General and by the Office of Medical Investigations. The Committee has found several examples of bonuses being awarded to employees responsible for VA operations that have been the subject of highly critical IG or OMI reports in the same year the bonus was awarded. VA must ensure that the Secretary and the Personnel Review Boards are aware of, and consider, such reports when making bonus decisions.

Finally, I would note that Secretary Nicholson is responsible by law for the ultimate determination of who gets bonuses and in what amounts. The Committee invited Secretary Nicholson to attend today's hearing, but the VA has chosen to send his deputy, Mr. Mansfield, even though Mr. Mansfield appears to have had no role in the bonus process. The Committee would be pleased to hear from Mr. Mansfield that this is incorrect. In addition, it appears that Secretary Nicholson has served as a rubber stamp for the recommendations made by his subordinates, in sharp con-

trast to his predecessor. The Committee assumes that Mr. Mansfield will be able to address this issue as well.

In closing, I want to reiterate that this Committee has no desire to denigrate the good work of the senior managers of VA. This hearing is not intended to pressure the VA into eliminating bonuses or to target individual VA employees. The VA, this Committee, and all Americans want what is best for our veterans. The SES bonus system can be an effective tool to improve the performance of the VA, and Congressional oversight of that process will assist the VA in better matching performance to reward.

I look forward to today's testimony.

**Prepared Statement of Hon. Ginny Brown-Waite, Ranking
Republican Member, Subcommittee on Oversight and Investigations**

Mr. Chairman, thank you for yielding. I would also like to thank the witnesses before us for coming to this hearing. Your testimony is important to the oversight of this Committee in guaranteeing the process of assessing bonus reviews is fair, accurate, and appropriate.

During our Subcommittee hearing on April 19th, discussing the care situation at the W.G. (Bill) Hefner VA Medical Center in Salisbury, North Carolina, I asked for a list of the people who were involved in the administration of care at the hospital, and the bonuses they received over the period of time, where there was obviously questionable quality of care rendered to veterans at that facility. The Federal Government should not be in the practice of providing bonuses to individuals who permit a failure in the system under their watch. I believe that government should be run like a business enterprise, where bonuses are used as an appropriate reward, but are limited to only the very best and most deserving employees, especially during a time of war.

Several Members on both sides of the aisle have expressed frustration over the bonus situation, particularly after the many news articles describing who received certain bonuses, and speculation as to whether these bonuses were justly and appropriately applied through the SES bonus process. The news media has linked bonuses to the 2005 budget shortfall issue, one that is very fresh on the minds of those of us here who served on the Committee during the 109th Congress. The media and several Members have also linked the bonuses to the claims backlog that is prevalent at the VA. I am concerned that we not be too quick to judge the evaluation process, but give all the witnesses here a fair process to express their views.

It is my hope that, through the process of this hearing, we will learn more about how the VA determines the bonus awards given out, and whether the bonuses to members of the Senior Executive Service at the VA were given in an appropriate amount related to their actual performance. I also look forward to hearing from GAO to better understand how OPM certifies VA's bonus process and perhaps a better insight on VA's bonus justification process. I am sure many of the bonuses reflect the hard work and professionalism of VA's senior management.

Again, thank you for yielding, Mr. Chairman, and I yield back my time.

**Prepared Statement of J. Christopher Mihm, Managing Director
Strategic Issues, U.S. Government Accountability Office**

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 healthcare 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

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.

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 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 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

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).

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).

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.

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 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 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.

⁷ See 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).

⁸ GAO, *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).

⁹ 5 U.S.C. § 5384.

¹⁰ In 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.

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 the basis of the position held, and consideration is given to those positions where the holder would have knowledge about 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, 6 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 toward 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

¹¹ 5 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).

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 1 year.

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

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.

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.

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.

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.

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 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.

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

¹⁷GAO-07-90.

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.

¹⁹All years are calendar years.

VA received provisional certification for each of the years 2004 through 2006. In 2006, in 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 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.

**Summary of Certification Criteria for Senior Executive Appraisal Systems—
Continued**

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.

**GAO HIGHLIGHTS
HUMAN CAPITAL**

Bonuses to Senior Executives at the Department of Veterans Affairs

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.

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.

	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.

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.

Prepared Statement of Hon. Gordon H. Mansfield Deputy Secretary, U.S. Department of Veterans Affairs

Mr. Chairman and Members of the Committee:

Recently, questions have surfaced about the integrity of the performance award process for Senior Executives serving within the Department of Veterans Affairs (VA).

I am pleased to come before you to address this issue and to provide an overview of the performance management system governing VA's career Senior Executive Service (SES) corps. But most important, I am happy to dispel any and all misrepresentations surrounding the issues of SES performance ratings, pay increases, and performance bonuses within my Department.

I would like to note that, by statute, Senior Executive noncareer appointees are not eligible for performance bonuses.

Federal law and Office of Personnel Management (OPM) policies guide the executive branch in matters relating to compensation of Federal employees. Those policies acknowledge that performance awards are integral to the government's ability to attract, retain, and reward experienced, high-quality career executives.

United States Code specifically states that “to encourage excellence in performance by career appointees, performance awards shall be paid.” (Title 5, sec. 5384, ‘Performance awards in the Senior Executive Service’).

It further specifies the way payment is to be made (“in a lump sum and in addition to basic pay”); The way a bonus pool is to be established (“an amount not to exceed 10 percent of the aggregate amount of basic pay paid”); And the parameters governing an award’s payment amount (“a performance award . . . may not be less than 5 percent nor more than 20 percent of the rate of basic pay”).

The statute also establishes the procedure for appointing Performance Review Boards (PRBs), stipulating that the majority of members are to be career appointees. And, last, the statute assigns to the Secretary of Veterans Affairs final approval of awards recommended by each PRB for the Department.

Office of Personnel Management regulations further amplify this statutory framework. OPM regulations set procedures for establishing PRBs and state the criteria for determining performance standards and related metrics. And OPM annually reviews and certifies the results of PRB activities to ensure compliance with its rules and regulations.

In keeping with the statute, and adhering to OPM regulations, VA’s four PRBs direct a rigorous and transparent performance management process. They establish performance standards that are objective, measurable and, to the maximum extent possible, quantifiable.

Our executives report on their specific levels of achievement measured against these standards, and their supervisors subsequently recommend performance ratings, pay adjustments, and bonuses.

Senior Executive Service personnel, by definition, hold leadership positions of great responsibility and trust. And VA approves bonuses for these men and women based on one and only one criteria—demonstrated performance. Greater amounts are awarded to career executives who receive higher performance ratings for successfully carrying out complex responsibilities in positions with broad spans of control.

These bonus recommendations are reviewed by the governing PRB to ensure equitable and consistent interpretation and application throughout the Department. The Board then forwards its recommendations, through me, to the Secretary for his final review and approval.

VA has 321 career SES positions. This represents a ratio of Senior Executives to the general employee population of approximately 750:1. This ratio represents one of the broadest spans of control in the Federal Government. Our SES corps provides oversight to a staff of nearly 240,000 employees and a budget of more than \$87 billion.

VA provides direct services, such as healthcare, pensions, compensation, home and education loans, and burials to millions of veterans annually.

In point, we operate the Nation’s largest integrated healthcare system, with 153 hospitals, 882 outpatient clinics, 46 domiciliary residences, and 207 Vet Centers. Fully 198,000 employees staff the broad-based programs and services of our Veterans Health Administration.

VA manages a \$34.5 billion healthcare system with 7.6 million enrollees. We treat 5.8 million patients, and have over 57 million outpatient visits annually. That’s more than 1 million patients each and every week.

VA has been widely acknowledged in the healthcare industry and by the media as the best healthcare system in America today. *Business Week* . . . *the Washington Monthly* . . . *U.S. News and World Report* . . . *the New York Times* . . . and *NBC Nightly News*, among many others, have all applauded our state-of-the-art medical care.

Our \$40 billion benefits system, supported by over 13,000 employees, disburses disability payments each month to 2.7 million recipients, and pensions to more than 324,000 beneficiaries on our rolls. Payments made on time, every time.

This year, we will pay out more than \$2.7 billion in educational benefits to over one-half million active duty servicemembers, veterans, and their beneficiaries.

Last year, VA helped over 142,000 veterans purchase homes worth \$25 billion through our home loan guaranty program.

VA administers \$1.3 trillion in insurance coverage for 4.3 million veterans and servicemembers, plus 3 million spouses and children.

For calendar year 2006, our insurance programs paid claims totaling \$2.1 billion to 110,000 veterans, servicemembers, and their families. This includes the newly-enacted Traumatic Servicemembers’ Group Life Insurance program, which provides payments to seriously injured servicemembers and their families at a time when they are most in need of our support.

If operating in the private sector, VA's insurance component, alone, would rank as the sixth largest life insurance company in the country.

We operate the country's largest burial and cemetery system. This year, more than 103,000 veterans will be laid to rest in one of 125 national cemeteries whose operations are supported by a staff of 1,527. Since 2005, we have established five new national cemeteries, and will open six more by late 2008 and early 2009.

In the midst of our historic expansion, VA remains committed to ensuring that each of our cemeteries is maintained as a pristine, respectful *National Shrine* to those who served. This fiscal year, we will expend \$16.6 million to support our commitment.

Our cemetery operations have elicited customer satisfaction ratings that are second to none. Surveys have consistently confirmed that VA provides an unmatched level of excellence in honoring our Nation's departed heroes.

VA's central office is the nexus for an array of programs and services that reach from Maine to Manila. Central office sets VA-wide policy and procedures, prepares the Department's budget, oversees financial operations, and manages our information technology infrastructure.

Working for the second largest agency in the Federal Government, each VA Senior Executive has responsibility for far-reaching and complex programs, significant financial resources and major capital assets, and large numbers of reporting staff.

Within VA, the bonus pool is 9 percent of aggregate SES salaries, or about \$3.8 million. That is in the context of an overall 2006 VA salary budget of approximately \$18.4 billion. This amount translates to .02% of 2006 salaries. Or expressed another way, for every \$1 million in salaries, VA awarded just over \$200 in bonuses.

Over the past 3 years, the average SES bonus amount is in the range of \$16,000. This compares to a governmentwide average of approximately \$14,000. I would like to take this opportunity to note that a number of agencies report a mean SES bonus figure that falls well within the \$2,000 window between the VA and governmentwide averages.

For example, FY 2005 data show that the average SES bonus was \$15,945 at the Department of Agriculture; \$15,857 at NASA; and \$15,173 at the Treasury Department.

In response to recent congressional inquiries about SES bonuses, Secretary Nicholson requested an OPM review of VA's SES performance-based pay system. I am including the OPM report as an attachment and will briefly provide a summary of its findings.

Number one. The design and implementation of VA's SES performance management system meets all statutory and regulatory requirements.

Number two. Executives who are members of PRBs do not make recommendations regarding their own pay adjustments and awards, or the pay adjustments and awards of other executives in their chain of command.

Number three. VA is making distinctions in performance as evidenced in its ratings, pay, and awards decisions.

Number four. VA executives are rated and rewarded primarily based on organizational results balanced against customer and employee perspectives and additional executive competencies.

Secretary Nicholson has agreed to fully implement the recommendations made as a result of the OPM analysis.

Mr. Chairman, I am extremely proud of the Senior Executives with whom I work. They are a highly competent and committed group of leaders who excel in managing an organization that, if in the private sector, would rank as a Fortune 50 company.

The scope of our services is enormous, and the implications for senior personnel management are equally great.

Most of our SES have dedicated their entire careers to the welfare of America's veterans. Many are retirement eligible—and were they to retire—they would quickly be hired at considerably higher salaries by one of the many organizations with whom VA does business.

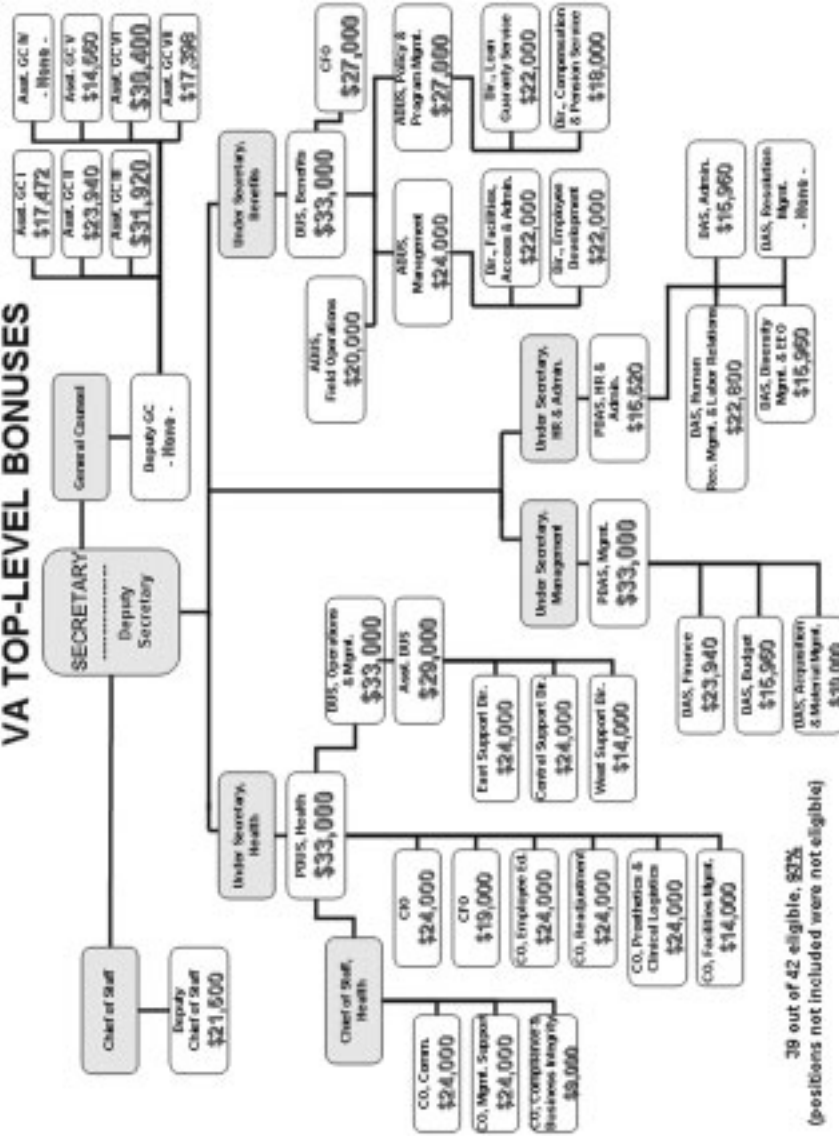
While the bonus dollar amounts under discussion are sizeable, they are paid to seasoned and successful executives in recognition of solid and significant contributions to public service. And they pale in comparison with compensation and bonuses common to executives, with similar credentials, working in the private sector.

Good government is a reflection of the people who make it that way, and their competency, dedication, and leadership are essential to the Department of Veterans Affairs, as they are to government-at-large.

VA remains committed to the statutory imperative of executive bonuses to both reward and to encourage continued "*excellence in performance.*"

Mr. Chairman, this concludes my prepared remarks. I would be happy to answer any questions you may have.

VA TOP-LEVEL BONUSES



39 out of 42 eligible, 93%
(positions not included were not eligible)

**Prepared Statement of Carol A. Bonosaro
President, Senior Executives Association**

Distinguished Members of the Subcommittee:

The Senior Executives Association, the professional association representing the interests of members of the career Senior Executive Service and those holding equivalent positions, appreciates the opportunity to testify about performance awards for Senior Executives at the Department of Veterans Affairs.

This investigation into and resulting publicity surrounding bonuses paid to Senior Executives at the Department of Veterans Affairs has been, in our view, unfair and misdirected. All Americans share the desire to give our Nation's veterans the best care and service possible, and no group more than VA career executives, who have dedicated their lives and careers to doing just that. These career executives are well worth their salaries and performance awards. Newsweek, U.S. News and World Report, the Wall Street Journal and other publications have repeatedly cited the Department of Veterans Affairs as administering the "finest healthcare in the world." Such commendations are significant considering it is a system that many agree has been underfunded and under additional stress since 2002. We believe such commendations have resulted from the tremendous work of the dedicated executives who receive these performance awards and their teams.

Considering measures to restrict bonuses because of disagreement with policy decisions will unfairly punish career civil servants and achieve nothing in relation to those policy decisions. As the Subcommittee is aware, career executives work at the direction of political appointees. Consequently, concerns with Bush Administration decisions to request less money than is believed needed for VA healthcare and claims processing should be directed at the Administration's policymakers, not at the career Senior Executives who implement their decisions.

At the Department of Veterans Affairs and throughout government, career executives are working to provide the best services they can within the resources they are given by the Administration and Congress.

If Congress limits or discontinues SES performance awards, the best career executives will have another incentive to leave for the private sector or retirement, rather than continue to carry out these programs in a system that only provides a mere fraction of the compensation these professionals are worth and can earn in the private sector. The media has portrayed these performance awards as extravagant. However, career executives who run VA health facilities generally make less than 50% of what their private sector counterparts earn in comparable positions. Many career SES earn as much as \$70,000 a year less than some of the VA medical staff employed in the facilities under their direction. It is important to see performance awards in this environment and realize they are not lavish frills. They are a part of the compensation system for Senior Executives throughout government and are necessary to attract and retain the best leaders.

The Senior Executive Service was created in 1979 to encourage and reward the highest performers in government. It provides both greater risks and greater rewards than the General Schedule. If a Senior Executive is not rated as fully successful or better, his or her salary can be decreased as much as 10 percent. If rated below fully successful twice in 3 years, the executive can be removed from the Senior Executive Service with what is essentially no right of appeal. Those rated "fully successful" often do not even receive an increase in salary that covers increases in the cost of living as happens automatically each year for General Schedule employees, who also receive locality pay adjustments and are eligible for within-grade increases. Suffice it to say, mediocre or poor performing employees do not last long in the Senior Executive Service, and even being considered to be "fully successful" can bring no upward salary adjustment.

In contrast, high-performing Senior Executives can and often do receive substantial pay raises or performance awards. By law, up to 10 percent of a Department's or Agency's SES pay pool can be set aside for annual performance awards. These performance awards range from 5 percent to as much as 20 percent of a career Senior Executive's salary. As one would expect, top performers consistently receive performance awards. They are central to keeping those top performers in the Department of Veterans Affairs and in government.

These performance awards are not given out without substantial oversight. By statute, a Performance Review Board (PRB) consisting of a majority of career Senior Executives evaluate performance appraisal recommendations from supervisors for accuracy and equitability throughout the agency and provide a final recommendation to the agency head. PRB members must and do exempt themselves from decisions about their own performance appraisals. This is the case at the Department

of Veterans Affairs, as well as in every agency in government with oversight from the Office of Personnel Management.

Some in Congress have called for PRB members to be ineligible for performance awards. This would be a serious mistake. Agencies select their highest performing career executives to be members of Performance Review Boards as impartial jurors of their peers. These high-performing executives also have good judgment and are most knowledgeable about the agency. Obviously many PRB members will be recommended for awards. Excluding them from receiving awards will result in only those career Senior Executives not recommended for awards being eligible to serve, and the quality of advice may very well be lessened. Further, who would wish to accept appointment to a PRB with the understanding that such membership would make them ineligible to receive performance awards? Recusal by the PRB member when his or her performance is being discussed remedies this.

A recent survey by the Senior Executives Association (SEA) showed that many of the government's career Senior Executives were discouraged by their relatively new pay system. Performance awards, on the other hand, have existed since the inception of the SES and are one part of the SES pay system that works as intended according to a quarter century of comments from SEA's members.

Even with performance awards, Senior Executives in government are paid well below what they are worth. Taking away performance awards will push the best and brightest out of the civil service and into jobs in the private sector or retirement. With 90 percent of those in the Senior Executive Service eligible to retire over the next decade and with no effective governmentwide succession plan designed to develop personnel trained to replace them, taking away performance awards would be moving in the wrong direction. Further, SEA consistently receives reports that many talented and accomplished GS-14's and 15's who would be prime candidates for the SES are dissuaded from aspiring to the SES given that they would take on additional responsibilities, enjoy fewer rights, and their pay adjustments would be far less reliable.

As a former career Senior Executive myself, and as President of SEA for over 20 years, I can assure you that these career Senior Executives are driven by a love for public service over financial gain. They are dedicated to their work, and putting in 70-hour weeks is not rare. They must make the best decisions possible with the resources they are provided. Those who do the best jobs and make the greatest contributions deserve the rewards available under the current SES pay and awards system, and perhaps more.

SEA understands that the Committee has some concerns about the budgetary policies and other policy decisions that have been made with regard to the Department of Veterans Affairs. SEA asks that the Committee seek answers to those questions through the Administration. We are concerned that the career Senior Executives are becoming an easy scapegoat for these matters over which they have no control.

I thank you again for the opportunity to testify before this Subcommittee. SEA looks forward to working with this Committee and with the Department of Veterans Affairs to correct this unfortunate misperception. We hope to continue to be an effective voice of the Federal Government career executive leadership on this and other matters regarding the civil service.

**Prepared Statement of Hon. Cliff Stearns, a Representative in Congress
from the State of Florida**

Mr. Chairman,

Thank you for holding this hearing today to discuss recent issues that have been developing within the VA. Today we will specifically be examining the process in which bonuses are awarded to VA officials and how the VA ensures that bonuses are awarded in an impartial process, and to award bonuses taking the Department's overall success into account.

In 2006, the Department of Veterans Affairs awarded over \$3.8 million in bonuses to its employees. Coincidentally, this is right after Congress had to jump in and obtain emergency funding to cover a \$1.5 billion budget shortfall.

AP reports have shown that "21 out of 32 officials who were members of the VA Performance Review Boards received more than half a million dollars in payments themselves." Additionally, the largest increase in spending for VA health in the past 77 years was introduced by Congress only recently. I want to ensure and reiterate that the priority for VA funds is to serve our country's veterans. Only after their

needs have been met, and all departmental obligations fulfilled, should the VA bureaucrats receive rewards.

However, I feel we must also be fair about this process. I do not believe we are questioning whether or not the VA should award bonuses, but rather the manner in which it does so. Actually, in a May 15th Washington Post article, Secretary Nicholson made an interesting argument that, "bonuses help keep experienced officials and make their compensation more competitive with the private sector. Over the long run, keeping the most talented employees helps improve efficiency and maintains quality services." This is an accurate point, however, these bonuses must not be at the expense of veterans' services, or at the cost of taxpayers with million dollar budget bailouts.

The VA's method for granting bonuses should be examined to determine whether there is any opportunity for improvement of the VA's SES bonus system. Our goal here always is to ensure that the VA funds are being properly distributed to the servicemen and veterans who deserve it. I look forward to hearing more from our witnesses today.

POST-HEARING QUESTIONS AND RESPONSES FOR THE RECORD

Committee on Veterans' Affairs
Subcommittee on Oversight and Investigations
Washington, DC
October 29, 2007

Honorable Gordon H. Mansfield
Acting Secretary
U.S. Department of Veterans Affairs
810 Vermont Avenue, NW
Washington, DC 20420

Dear Secretary Mansfield:

On Tuesday, June 12, 2007, the Subcommittee on Oversight and Investigations of the House Committee on Veterans' Affairs held a hearing on the process by which the VA awards bonuses to members of the Senior Executive Service (SES). You testified at that hearing, accompanied by several of your colleagues. In your testimony, you committed to this Subcommittee that VA would implement the four recommendations of the Office of Personnel Management contained in OPM's June 1, 2007, letter to then-Secretary Nicholson. Those four recommendations were:

1. Ensure all executive performance plans focus at least 60 percent on achieving measurable results. This will make certain the performance ratings are primarily based on individual and organizational performance and results achieved.
2. Revise the VA PRB awards determination process to ensure awards are granted based primarily on individual and organizational performance and results achieved. Discussions within the VA PRB should center on measurable results achieved and the awards scoring form used by the VA PRB (which leads the discussion and scoring) should more clearly focus on results.
3. New PRB members should receive training on the policies and guidance of the SES PRB process and their role on the PRB. All PRB members should receive refresher training annually.
4. Management guidance issued to PRB members regarding how to consider organizational performance when determining ratings and awards should be made clear to all PRB members. A report summarizing organizational performance should be provided to PRB members with instructions on how to use the information in its deliberations.

Please confirm for the record that VA is, in fact, implementing these recommendations for executive performance evaluations being done for the current performance year (*i.e.*, for bonuses to be awarded in December of this year) and describe in detail how VA is implementing the recommendations.

In addition, please state whether the VA executive performance evaluation process for the current performance year includes the following elements and, if so, how the element is being implemented and, if not, why not:

1. Consideration during the PRB process and review by the Secretary of the existence and results of investigations by the VA Inspector General and/or the Office of Medical Investigations;
2. Appointment of PRB members who are not VA employees;
3. Assessment of VA SES bonuses with bonuses awarded at other Federal agencies.

Finally, please tell the Subcommittee about any changes to the VA executive performance evaluation process for the current performance year that have not been described in your responses to the previous requests in this letter.

We request you provide responses to the Subcommittee no later than close of business, Wednesday, November 28, 2007. For purposes of printing in the record, please also provide an electronic version of the response in Microsoft Word format to Ms. Caitlin Ostomel.

If you have any questions concerning these questions, please contact Subcommittee on Oversight and Investigations Staff Director, Geoffrey Bestor, Esq., at (202) 225-3569 or the Subcommittee Republican Staff Director, Arthur Wu, at (202) 225-3527.

Sincerely,

HARRY E. MITCHELL
Chairman

GINNY BROWN-WAITE
Ranking Republican Member

U.S. Department of Veterans Affairs
 Washington, DC
 November 28, 2007

The Honorable Harry E. Mitchell, Chairman
 The Honorable Ginny Brown-Waite, Ranking Republican Member
 Subcommittee on Oversight and Investigations
 Committee on Veterans' Affairs
 Washington, DC 20515

Dear Mr. Chairman:

This is in response to your October 29, 2007, request for confirmation that the Department of Veterans Affairs (VA) implemented four recommendations contained in the Office of Personnel Management's (OPM) June 1, 2007, letter to then-VA Secretary R. James Nicholson. You asked that VA provide a detailed description of how it implemented these recommendations. Your letter also requested that we indicate whether, and to what extent, VA had incorporated the following elements into the executive performance evaluation process for the current performance year:

1. Consideration during the Performance Review Board (PRB) process and review by the Secretary of the existence and results of investigations by the VA Inspector General and/or the Office of Medical Investigator;
2. Appointment of PRB members who are not VA employees;
3. Assessment of VA Senior Executive Service (SES) bonuses with bonuses awarded at other Federal agencies.

My responses are contained in the enclosed fact sheet which includes the information and training provided to PRB members to assist them in ensuring their recommendations on performance ratings, pay increases and SES bonuses are based on both organizational performance and individual contributions by each covered executive.

I believe that incorporating the recommendations covered in the OPM Report and the elements discussed in the hearing have strengthened our executive performance appraisal process. We have committed to conducting post PRB assessment process reviews to identify ways we can further improve our process, particularly in the areas of strengthening performance standards, making meaningful distinctions among individual performance, and assessing organizational performance.

I hope that this fact sheet is responsive to your concerns. I am available to provide additional or clarifying information, or discuss further, at your convenience. I am providing a similar response to the Honorable Ginny Brown-Waite, Ranking Republican Member, Subcommittee on Oversight and Investigations, Committee on Veterans' Affairs.

Sincerely yours,

Gordon H. Mansfield
 Acting Secretary

Enclosure

FACT SHEET

The Department of Veterans Affairs (VA) Response to the Office of Personnel Management's (OPM) Report and the Subcommittee On Oversight and Investigations' Inquiry on VA's SES Performance Evaluation Process

ISSUE:

To provide the Honorable Harry E. Mitchell, Chairman, Subcommittee on Oversight and Investigations, Committee on Veterans' Affairs, confirmation that VA has implemented OPM's four recommendations and the three specific elements contained in the Chairman's letter regarding VA's executive performance evaluation process for the current performance year and address how the elements were implemented.

DISCUSSION:

This fact sheet provides confirmation that VA has implemented OPM's four recommendations and complied with the Subcommittee's three additional elements regarding VA's current executive performance evaluation process.

OFFICE OF PERSONNEL MANAGEMENT'S RECOMMENDATIONS**RECOMMENDATION #1**

Ensure all executive performance plans focus at least 60 percent on achieving measurable results.

VA RESPONSE:

OPM modified the Fiscal Year (FY) 2007 Senior Executive Service (SES) performance appraisal system certification criteria to establish results-oriented performance cultures in agencies. For SES programs being certified in FY 2007, OPM required that well over 50 percent of an executive's performance rating focus on achieving results. As a result of OPM's modification, I required all SES members in the Department have a performance plan with performance elements that contained weights in terms of percentages. At least 60 percent of the weight of each plan must be based on business results within a critical element. In addition, all SES performance plans must reflect Information Security as a critical element or sub-element to a critical element for the rating period that began October 1, 2006. The VA Human Resources (HR) staff met with OPM staff to obtain guidance on the new requirement and then worked closely with VA Administrations and Staff Offices to provide them assistance necessary to bring the SES performance plans into alignment with OPM's requirements by July 1, 2007.

RECOMMENDATION #2

Revise the VA Performance Review Board (PRB) awards determination process to ensure awards are granted based primarily on individual and organizational performance and results achieved. Discussions within the VA PRB should center on measurable results achieved and the awards scoring form used by the VA PRB (which leads the discussion and scoring) should more clearly focus on results.

VA RESPONSE:

The Office of the Assistant Secretary for Human Resources and Administration (A/S HR&A) reviewed the current VA PRB awards determination process and developed modifications to the process to increase the emphasis placed on individual and organizational performance and results achieved. The modifications were briefed to the Chief of Staff and the Acting Secretary (**Exhibit R.2.a**) who approved the changes together with the FY 2007 SES performance guidelines for the 2007 bonus pool percentage, bonus amounts and pay adjustment percentages. The rating officials of staff office executives who fall under the purview of the VA PRB were briefed (**Exhibit R.2.b**) on the modifications made to the VA PRB awards determination process, including the FY 2007 performance guidelines approved by the Acting Secretary. In summary, the awards scoring form criticized in the OPM Report has been eliminated. Staff office organization heads have been given more autonomy to ensure meaningful distinctions are made related to the executives assigned under their immediate purview. This year, the staff office organization heads have been allotted bonus pools which represent a percentage of the aggregate career salary of their executives, from which they can recommend bonuses using up to 75 percent of their allotted bonus pools within the guidelines (**Exhibit R.2.c**) approved by the Acting Secretary. The VA PRB focused their discussions on individual and organizational performance as it relates to the Department's performance as a whole.

RECOMMENDATION #3

New PRB members should receive training on the policies and guidance of the SES PRB process and their role on the PRB. All PRB members should receive refresher training annually.

VA RESPONSE:

All VA PRB members have been provided training on the policies and guidance of the SES PRB process and their roles on the PRB. This year, the Office of the A/S HR&A developed a training guide for the VA PRB members. The training was included as part of the first meeting of the VA PRB on November 14, 2007. The training guide presented to the PRB members is provided as Exhibit R.3.

RECOMMENDATION #4

Management guidance issued to PRB members regarding how to consider organizational performance when determining ratings and awards should be made clear to all PRB members. A report summarizing organizational performance should be provided to PRB members with instructions on how to use the information in its deliberations.

VA RESPONSE:

The guidance provided to the PRBs regarding how to consider organizational performance included a briefing by the Assistant Secretary for Management which includes a report of each organizational performance during the rating period along with instructions by the Chairperson of each PRB on how to use the information during the PRB deliberations. Exhibit R.4 consists of the briefing materials presented at the VHA, VBA and Department PRB meetings.

ELEMENT #1

Consideration during the PRB process and review by the Secretary of the existence and results of investigations by the VA Inspector General and/or the Office of Medical Investigations.

VA RESPONSE:

The VA PRB process has historically included submitting the names of all SES members recommended for a bonus to the Office of the Inspector General (OIG) along with an inquiry as to whether there were any ongoing or completed investigations on any of the SES members recommended for a bonus. The results of this inquiry have been reported to the appropriate Under Secretary or Assistant Secretary for action, and then to the approving official (the Secretary or his designee) along with the OIG reports. Also, the Deputy IG serves as a member of the VA PRB and is asked to identify any SES member recommended for a performance award who is the subject of an ongoing or completed investigation to ensure that the investigation has been factored into performance recommendations for any such SES member. This year, each organization head was required to confirm that the results and findings of external reviews, including those from the OIG, Government Accountability Office, Combined Assessment Program, and the Office of the Medical Inspector, etc., have been considered and were factored into each rating, pay adjustment, and bonus recommendation as appropriate. Exhibit E.1.a is the sample memorandum. Exhibit E.1.b is a sample template which VHA uses on a quarterly basis for each network. VHA reviews each item on the template to determine if revisions are needed.

As you know, when the Offices of the Inspector General or Medical Inspector conduct an audit, investigation, or review of a Medical Center or Regional Office, they routinely provide that organization's supervisory level (Network Director in VHA; Area Director in VBA) with a copy of the findings and recommendations. The field facility provides a copy of their responses to the findings together with planned action to implement the recommended corrective actions to their Network or Area Director at the same time they respond to the OIG or Medical Inspector (MI). The Network and Area Director then track their implementation steps until they are satisfied that corrective measures are in place, and the deficiencies have been remedied.

If the Medical Center or Regional Office does not concur with either the findings or recommendations, they can provide responses to the DIG or MI specifying their reasons why they do not agree. These may be disagreements over factual issues or over the most effective means of remedying the problem. These responses are also provided to the Network or Area Director to ensure that the supervisory office has a full understanding of the issue involved.

As a consequence, the Network or Area Director, as the rating official, has a comprehensive, contemporaneous knowledge of an OIG or MI review at the same time as the affected executive, and is able to assess the nature and severity of the issues, as well as the effectiveness of any corrective action. They are able to fully consider the impact of these findings on an executive's performance evaluation, and are expected to do so by VHA and VBA senior management. Each rating official was required to stipulate that he or she had fully considered the results of any IG, MI, GAO, or other significant review and or investigation in recommending a performance rating for executives under their supervision.

ELEMENT #2

Appointment of PRB members who are not VA employees.

VA RESPONSE:

This year, each of the three VA PRBs (Central Office, Veterans Health Administration, and Veterans Benefits Administration) included a non-VA executive. The Federal Register Notice, published on October 30, 2007, contains the full membership of the VA PRBs (Exhibit E.2.a). The non-VA PRB members are listed at the end of each PRB. A brief biographical sketch for each is included as Exhibit E.2.b. VA selected each of the external members on the basis of their familiarity with the Department's core functions, i.e., claims adjudication, healthcare delivery systems, and staff office support to a large organization. Each of the external members will be asked to provide their observations on the Department's SES performance review process, and to make specific recommendations on improvements that could be made.

ELEMENT #3

Assessment of VA SES bonuses with bonuses awarded at other Federal agencies.

VA RESPONSE:

Attached as Exhibit E.3 is the Office of Personnel Management Report on Senior Executive Service Pay for Performance for FY 2006. The report includes the rating, pay and awards data for the third year of pay for performance for Federal executives in the Senior Executive Service. The report illustrates that VA ranked eleventh in the percentage of Senior Executives who received bonuses and third in the average bonus amount given in FY 2006.

Department of Veterans Affairs
Office of Human Resources and Administration
November 2007

[A notebook containing all of the Exhibits was received by the Subcommittee staff, will not be printed, and will be retained in the Subcommittee files.]

