



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

The Director

JUN 01 2007

The Honorable R. James Nicholson
Secretary of Veterans Affairs
810 Vermont Ave., NW
Washington, DC 20420

Dear Secretary Nicholson:

In your memo of May 15, 2007, you requested the Office of Personnel Management (OPM) conduct a comprehensive review of the systems and policies the Department of Veterans Affairs (VA) has in place to operate its performance management system for Senior Executives. My staff has reviewed the VA policies and procedures of your Senior Executive Service (SES) performance management system. This memo and its attachments provide findings and recommendations based on our review.

Findings and Recommendations

- 1. The design and implementation of the VA SES performance management system meets all statutory and regulatory requirements.**

OPM reviewed documentation of the internal regulations, policies, guidance, and other documents of VA's SES performance management system and found the system meets all requirements. OPM also interviewed VA's Executive Resources staff and most VA Performance Review Board (PRB) members to confirm the system has been implemented as designed. See Attachment 1 for a description of the policy documents, Attachment 2 for the methodology used for the review, and Attachment 3 for a summary of the VA PRB member interviews.

- 2. Executives who are members of the 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.**

VA policy prohibits PRB members making recommendations regarding their own pay adjustments and awards. Interviews with PRB members and the resulting decision documents of the PRB process confirmed the PRB members were not involved in making recommendations for their own pay adjustments and awards, nor were they involved in developing the PRB recommendations for the pay adjustments and awards of their subordinates.

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- 3. VA is making distinctions in performance as evidenced in its ratings, pay, and awards decisions for SES members. As a result, the highest-rated executives receive the largest performance awards.**

OPM reviewed the 2006 rating, pay, and awards data submitted by VA to OPM in support of the SES appraisal system certification process. Attachment 4 contains a summary of the data. The data shows:

- Higher rated executives received higher performance award amounts. (VA pay policy does not provide performance awards to executives rated at level 3 or below, or to non-career executives.)
- VA uses pay tiers (that is, control points) within the broad pay range and 63 percent of executives are capped in pay because their salaries are at the top of their assigned tiers.
- Differentiation in pay adjustments is limited because of the number of executives with pay capped at the top of their respective tiers.
- There appears to be no distinction in performance award amounts granted based on whether executives' pay is or is not capped at the top of their tiers.

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

OPM conducted an extensive analysis of VA SES performance plans during its review when certifying the VA SES appraisal system for calendar year 2006. During that review, OPM found performance plans held executives accountable for organizational results, customer and employee perspectives, and the performance management of subordinates. The review showed the performance plans of executives in the Veterans Benefits Administration (VBA) and the Veterans Health Administration (VHA) were particularly exemplary at focusing on achieving measurable results. Therefore, it was apparent the ratings for VA executives are primarily based on individual and organizational goals achieved and measurable results.

During the research conducted for this report, OPM found award determinations were also primarily based on achievement of individual and organizational goals and measurable results. Notably, the VHA and VBA PRBs used extensive organizational performance information when recommending pay adjustments and awards for executives. The VA PRB, which addressed ratings, pay adjustments, and awards for Central Office executives, also considered organizational performance and goal achievement, but its process was not as clearly focused on the results achieved. All PRB deliberations included robust discussions among PRB members, with rigorous review of all recommendations for ratings, pay adjustments, and awards. Some VA PRB members were more familiar with the policies, instructions, and requirements of the PRB than other members, and other VA PRB members said they were unclear on how to consider organizational performance when determining ratings, pay adjustments, and awards.

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As a result of our analysis, OPM has the following recommendations:

Recommendation #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.

Recommendation #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.

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.

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.

If you have questions regarding these findings and recommendations, please contact Kevin Mahoney, Associate Director for Human Capital Leadership and Merit System Accountability, at 202-606-1575, or email him at kevin.mahoney@opm.gov. Your staff may contact OPM's human capital officer for VA, Rayshad Holmes, at 202-606-0976 or by email at rayshad.holmes@opm.gov.

Sincerely,



Linda M. Springer
Director

Attachment 1

Procedural Information on Federal Performance Review Boards (PRBs): Law, Regulation, Guidance, and Department of Veterans Affairs Directive and Guidance

Chapter 43 of title 5, United States Code

§ 4314. Ratings for performance appraisals

(e)

(1) Each agency shall establish, in accordance with regulations prescribed by the Office, one or more performance review boards, as appropriate. It is the function of the boards to make recommendations to the appropriate appointing authority of the agency relating to the performance of senior executives in the agency.

(2) The supervising official of the senior executive shall provide to the performance review board, an initial appraisal of the senior executive's performance. Before making any recommendation with respect to the senior executive, the board shall review any response by the senior executive to the initial appraisal and conduct such further review as the board finds necessary.

(3) Performance appraisals under this subchapter with respect to any senior executive shall be made by the appointing authority only after considering the recommendations by the performance review board with respect to such senior executive under paragraph (1) of this subsection.

(4) Members of performance review boards shall be appointed in such a manner as to assure consistency, stability, and objectivity in performance appraisal. Notice of the appointment of an individual to serve as a member shall be published in the Federal Register.

(5) In the case of an appraisal of a career appointee, more than one-half of the members of the performance review board shall consist of career appointees. The requirement of the preceding sentence shall not apply in any case in which the Office determines that there exists an insufficient number of career appointees available to comply with the requirement.

Part 430 of title 5, Code of Federal Regulations, Subpart C:

§ 430.310 Performance Review Boards (PRBs).

Each agency must establish one or more PRBs to make recommendations to the appointing authority on the performance of its senior executives.

(a) *Membership.* (1) Each PRB must have three or more members who are appointed by the agency head, or by another official or group acting on behalf of the agency head. Agency heads are encouraged to include women, minorities, and people with disabilities on PRBs.

(2) PRB members must be appointed in a way that assures consistency, stability, and objectivity in SES performance appraisal.

(3) When appraising a career appointee's performance or recommending a career appointee for a performance award, more than one-half of the PRB's members must be SES career appointees.

(4) The agency must publish notice of PRB appointments in the Federal Register before service begins.

(b) *Functions.* (1) Each PRB must review and evaluate the initial summary rating, the senior executive's response, and the higher level official's comments on the initial summary rating, and conduct any further review needed to make its recommendations.

(2) The PRB must make a written recommendation to the appointing authority about each senior executive's annual summary rating.

(3) PRB members may not take part in any PRB deliberations involving their own appraisals.

Excerpt from OPM's SES Desk Guide July 1997

Chapter 5: Performance Management Page 5-8

Section 2 - Procedures

Each PRB reviews and evaluates the initial rating by the executive's supervisor, the executive's written response (if any), and the written review of the initial rating by a higher-level executive, if such a review was made. In its consideration of a case, a PRB may obtain additional records and statements, and may call witnesses.

The PRB should ensure that ratings adequately reflect consideration of both individual performance and the executive's contribution to the organizational accomplishment. The PRB should attempt to achieve equity and consistency among the rating of executives as well as the accuracy and fairness of individual ratings. Further, it should monitor ratings to ensure that they do not exceed the actual level of performance when compared against performance standards.

Individual PRB members must absent themselves from discussions and actions involving themselves in order to avoid the appearance of any conflict of interest. Agencies may

also, if they wish, exclude members from actions involving their own supervisors and subordinates. (An exception is when the member is called as a witness before the Board.) A majority of remaining Board members must be SES career appointees when acting on a career appointee's appraisal or performance award recommendation.

VA Handbook 5027/ Part V: Performance Appraisal System

Paragraph 10 – PRB Review and Approval Of Annual Rating By Approving Official

a) PRB Review

(6) Consistent with law, OPM, regulation and VA or administration policy, each PRB will recommend written operating procedures which document the specific methods the Board will use to process and prepare recommendations on performance appraisal and related actions. This includes a summary of procedures used to ensure that PRB members do not participate in recommending performance ratings for themselves, their subordinates, or their supervisors. These procedures will be approved by the Chairperson of the VA PRB.

Memorandum from the Assistant Secretary for Human Resources Administration to Under Secretaries, Assistant Secretaries, and Other Key Officials on the subject of SES Performance Appraisal Instructions dated October 18, 2006

This memorandum provides instruction, guidance, and timeframes for completion of SES performance appraisal ratings, recommendations for executive bonuses and pay adjustments, and establishment of FY 2007 performance plans.

3. **Performance Ratings:** ... "Please ensure that outstanding and excellent ratings are reserved for executives whose performance reflects an outstanding level of individual, organizational, and departmental achievements and that these achievements are fully documented on the appraisal form. Balanced measure must be considered when appraising executives' performance. Balanced measures are described as appraising performance by balancing organizational results, customer satisfaction and employee's perspectives."

4. **SES Bonuses:** "Career executives who have demonstrated significant individual and organizational achievements during the appraisal period may be recommended for performance awards. ... Please ensure that bonus justifications address how individual accomplishments contribute towards organizational and departmental goals, as well as appropriate EEO and Presidential Management Agenda Initiatives accomplishments. ... Bonus justifications must be prepared using the five Executive Core Qualifications (ECQ's) to categorize performance accomplishments. ... Please ensure that bonus justifications address organizational and departmental accomplishments and also address

appropriate EEO accomplishments. Bonus justifications that are not in the format of the five ECQs or lacking specific organizational, departmental, and EEO accomplishments will be returned by the VA PRB without action."

Memorandum from the Chairman, VA Performance Review Board to the Secretary on the subject of 2006 Guidelines on the Number, Amount and Distribution of SES Bonuses dated October 18, 2006

This memorandum communicates the VA PRB's recommendations on the guidelines to be used for the 2006 SES performance cycle regarding the SES bonus pool, the percentage of executives eligible to receive a bonus, bonus amounts and pay adjustments.

Under the section for Basic Guidelines, the memorandum states, "The Chairperson will ensure administrations and staff offices factor in assessments of organizational and agency performance at the conclusion of the SES appraisal period, before performance recommendations are made to ensure the assessments serve as a basis for individual performance evaluations. The Chairperson will ensure final performance recommendations made by the VA Performance Review Board also factor in the overall organizational performance (metrics and scorecards) to ensure individual SES performance recommendations are linked to actual organizational performance."

"Bonuses will be reserved for executives who have demonstrated significant individual, organizational and departmental achievements during the appraisal period and received a performance rating of excellent or outstanding."

Attachment 2: Methodology

This attachment describes the methodology used to review the Department of Veteran Affairs (VA) Senior Executive Service (SES) performance review and award allocation process. OPM's review team included Rayshad Holmes, Human Capital Officer for VA, Karen Lebing, Manager – Performance Excellence Group, Kia Williams, Team Member for Performance Excellence Group, Linda Beard, Lead Auditor for VA & Myriam Mayobre, Specialist in Pay & Awards, Strategic Human Resources Policy.

Quantitative and historical data for the review was garnered directly from VA Executive Resources Staff members within the Office of Human Resources & Administration. The following list details the data used to compile this report:

- 2006 Final Performance Rating & Awards Data
- SES System Description & Internal Memoranda
- 2006 Performance Review Board Meeting Minutes
- 2006 Performance Review Board Performance Rating & Award Recommendations to the Secretary of VA
- 2006 Performance Rating & Award Decision Document from Secretary of VA
- Performance Plans & Award Justifications for PRB Members & other executives
- October 2006 Monthly Performance Review Binder

The quantitative component of the review included analysis of VA's SES performance awards and incentives for trend analysis, award differentiation and distinction, statistical significance and identification of outliers. In addition, descriptive statistics including mean and modal distributions along with comparison to government-wide average were generated. Results of this analysis are included in this report and its appendices.

The review team also collected qualitative data on the performance review and award allocation process by interviewing nine members of the VA Performance Review Board. These structured interviews were conducted on Wednesday, May 23rd and Thursday, May 24th at the VA Headquarters. The interview lasted up to 45 minutes and covered these five questions:

- Describe the process used by the PRB to conduct performance reviews and award allocations and your role in that process.
- Explain the way in which you assessed or included organizational performance in your rating and designation of awards.
- What instructions were you given by the Executive Resources Staff regarding assessment and inclusion of organizational performance?
- At any time in the process did you feel comfortable expressing concerns about an individual's proposed rating or award?
- Did you or any members of the PRB rate, rank or designate an award for yourself or other members of the PRB?

The following individuals were interviewed:

- Thomas G. Bowman, Chief of Staff
- Sharon K. Barnes, Deputy Chief of Staff
- Ronald R. Aument, Deputy Under Secretary for Benefits
- Gerald M. Cross, M.D., Acting Principal Deputy Under Secretary for Health
- William F. Feeley, Deputy Under Secretary for Health for Operations & Management
- Rita A. Reed, Principal Deputy Assistant Secretary for Management
- John H. Thompson, Deputy General Counsel
- Richard Wannemacher, Senior Advisor, National Cemetery Administration
- Kenneth Greenberg, Executive Secretary to the Department

It should be noted that R. Allen Pittman who served as the Chairperson of the 2006 PRB is no longer employed by the Department and was not interviewed. The team did not engage members of the Office of the Inspector General in this review.

The final component of data collection included an executive session with the Executive Resources Staff and the Deputy Assistant Secretary for Human Resources. The team utilized these three data elements to compile the analysis and discussion that will follow.

Attachment 3:
**Results from Structured Interviews with PRB Members,
Executive Resources Service Staff, and the Deputy Assistant
Secretary for Human Resources**

As noted in the Attachment 2: Methodology, OPM interviewed the Executive Resources Service (ERS) staff, the Deputy Assistant Secretary for Human Resources, and nine executives from the VA Performance Review Board (PRB) to ascertain whether the PRB functions according to VA policy; whether PRB members participate in their own assessments or the assessments of their employees or management; and how the PRB incorporates organizational performance in its bonus and pay adjustment proposals. Interviewees were asked to describe the overall process and their role as a PRB member.

Interviews confirm that VA adheres to a structured Performance Review Board (PRB) process in accordance with law, OPM guidance, and VA policy and guidance. This process includes publishing in the Federal Register the executives appointed to serve on the four VA PRBs. PRBs are established for the Veterans' Health Administration (VHA), the Veterans' Benefits Administration (VBA), the Office of Inspector General (OIG), and the VA Central Office. The VA PRB assesses all non-VBA/non-VHA executives, and reviews the overall assessments from the VBA and VHA PRBs. A representative from the VBA and VHA PRBs participates on the VA PRB and a Central Office executive from the VA PRB participates on both the VBA and VHA PRBs.

Interviewees stated the initial 2006 PRB meeting focused on drafting recommendations for execution of the current year's executive performance recognition program. These recommendations included guidelines on the SES bonus pool, the percentage of executives eligible to receive a bonus, bonus amounts, and pay adjustment procedures. The recommended guidelines were reviewed by VA's ERS within the Office of Human Resources & Administration to ensure conformance with law, OPM guidance, and VA policy, and forwarded to the Secretary for consideration. Once the Secretary approved the guidelines, an instructional memorandum was issued to the PRB.

According to PRB members and ERS, ERS assigned each PRB member a set of executives to assess. These assignments were structured so that PRB members did not assess any executives within their own chain of command (subordinate employee or manager), and each executive was rated by six PRB members. PRB members are prohibited from participating in their own assessment or those of other PRB members. The Secretary is responsible for assessing executives assigned to the VA PRB.

PRB members explained that when they met a second time, they received the proposed performance appraisal rating, bonus, and pay adjustment documentation on each of the executives they were assigned to review. They were required to complete a rating sheet based on the Executive Core Qualifications (ECQ) for all award recommendations. ERS reported that in this second meeting they discussed with the PRB how to review the

documents, complete the rating sheet, and incorporate organizational performance and results in the assessments. The rating sheets were then returned to ERS and the scores tabulated for each executive.

The PRB reconvened a third time to review the combined scores for executives and discuss any issues or concerns. PRB members described these discussions as robust and noted instances where these discussions resulted in adjustments to performance ratings and/or proposed bonuses. None of those interviewed expressed hesitancy in voicing their concerns regarding performance ratings or bonuses within the PRB environment.

ERS provided the PRB with several scenarios listing the executives in cumulative score order along with potential bonus amounts from the highest to lowest percentage. Each scenario identified possible "natural breaks" based on the cumulative scores based on the predetermined bonus pool. The PRB decided which scenario it would recommend to the Secretary.

When the PRB finished with its assigned executives, Board members explained they then reviewed the proposals from the VBA and VHA PRBs. While they did not review each one of these proposals individually, the PRB looked for obvious discrepancies such as an outstanding rating without a bonus recommendation. Any questions were directed to those administration representatives who also participated on the VA PRB. These discussions can also result in a recommendation that changes the original proposal. Once the PRB finalized its recommendations on performance ratings and bonuses, the proposals were sent forward for the Secretary's consideration and approval.

The majority of PRB members interviewed stated they were not aware of any specific instructions on how to incorporate organizational performance in their assessment for ratings, bonuses, and pay adjustments. Three of the Board members were serving in this capacity for the first time. All of those we spoke with understood the importance of integrating individual achievements with organizational results; however, most noted a particular difficulty in tying performance with results for the staff offices. Many of the PRB members reported their knowledge of organizational goals and accomplishments stemmed from participation in the Secretary's Strategic Management Council meetings and monthly performance review meetings. They also stated their own responsibilities often placed them in a position to observe the assignments and accomplishments (or lack thereof) of other executives. This information was considered when assessing executives.

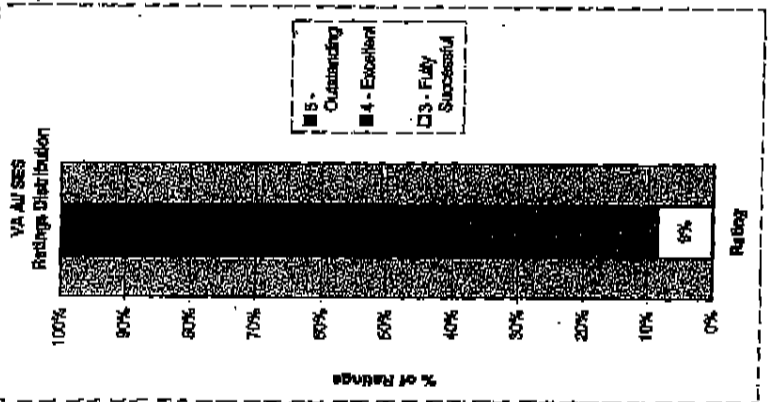
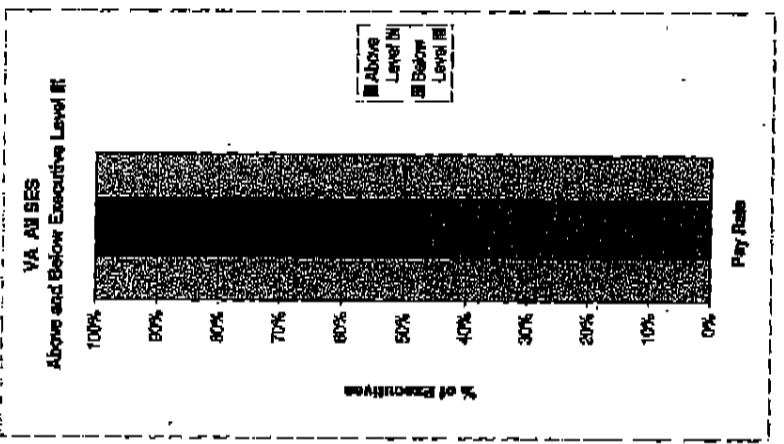
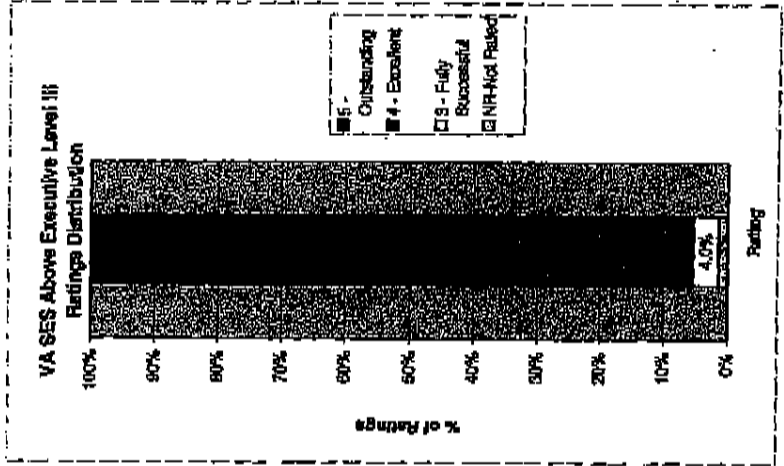
Performance Assessment for PRB members

As noted earlier, PRB members did not participate in their own assessment or those of other PRB members. Interviewees reported that the direct supervisors for PRB members completed the performance appraisal ratings for their executives, including any recommendations for bonuses and pay adjustments. These recommendations were submitted to the Secretary through the Chairman of the VA PRB and included any pertinent information from the Office of Inspector General, the Office of General

Counsel, and Office of Resolution Management. The Deputy Secretary may also have provided recommendations to the Secretary.

One of the individuals interviewed stated that the Secretary absolutely considers organizational performance in his decisions. This individual noted that the Secretary is personally aware of individual achievements of his executives and how those achievements affect the Department at the highest levels. He also reported that the Secretary was "conservative," did not grant awards without sound justification, and did not disagree with any proposed ratings/awards/pay adjustments without specific information to support his decision.

Appendix 2



2006		Executives Above Level III
Rating Level	% Executives Above Level III	
NR-Not Rated	1.3%	2
3 - Fully Successful	4.0%	6
4 - Excellent	28.0%	42
5 - Outstanding	66.7%	100
Total	100%	150

2008		Executives
Rating Level	% Executives	
Above Level III	54%	150
Below Level III	46%	128
Total	100%	278

2006		% VA Executives	# VA Executives
Rating Level	% VA Executives	# VA Executives	
1 - Unsatisfactory	0%	0	
2 - Minimally Satisfactory	0.0%	0	
3 - Fully Successful	3.0%	23	
4 - Excellent	34.1%	91	
5 - Outstanding	57.3%	153	
Total	100%	267	

Capped (175 63%)	
At Tier 1 (Level II)	64 37%
At Tier 2 (\$162,300)	53 30%
At Tier 3 (Level II)	58 33%
Total	175 100%

Not Rated/6 New Appr. 11 / 278