



July 2013

# VA HEALTH CARE

## Actions Needed to Improve Administration of the Provider Performance Pay and Award Systems

# GAO Highlights

Highlights of [GAO-13-536](#), a report to congressional requesters

## Why GAO Did This Study

VHA administers VA's health care system and strives to provide high-quality, safe care to veterans. Concerns continue about the quality of care VHA delivers, but many physicians and dentists, referred to as providers, receive performance-based pay and awards. In fiscal year 2011, about 80 percent of VHA's nearly 22,500 providers received approximately \$150 million in performance pay, and about 20 percent received more than \$10 million in performance awards. GAO was asked to review VHA's performance pay and award systems. This report examines (1) whether VA's performance pay and award policies ensure appropriate administration of this compensation and (2) VHA's oversight of medical centers' compliance with policy requirements. GAO reviewed documents and interviewed VA and VHA officials about the administration of performance pay and awards and VHA's oversight of the related policy requirements; analyzed data from a random sample of about 25 providers selected primarily from primary care, surgery, psychiatry, and dentistry at each of four medical centers GAO visited that had at least one provider who was the subject of an action related to clinical performance.

## What GAO Recommends

GAO recommended that VA clarify the performance pay policy, by specifying the purpose and documentation requirements and that VHA review performance pay goals for consistency with the purpose, and improve oversight to ensure compliance. VA generally agreed with GAO's conclusions and recommendations.

View [GAO-13-536](#). For more information, contact Debra A. Draper at (202) 512-7114 or [draperd@gao.gov](mailto:draperd@gao.gov).

July 2013

## VA HEALTH CARE

### Actions Needed to Improve Administration of the Provider Performance Pay and Award Systems

## What GAO Found

The Department of Veterans Affairs' (VA) performance pay policy has gaps in information needed to appropriately administer this type of pay. The performance pay policy gives VA's 152 medical centers and 21 networks discretion in setting the goals providers must achieve to receive this pay, but does not specify an overarching purpose the goals are to support. VA officials responsible for writing the policy told us that the purpose of performance pay is to improve health care outcomes and quality, but this is not specified in the policy. Moreover, the Veterans Health Administration (VHA) has not reviewed the goals set by medical centers and networks and therefore does not have reasonable assurance that the goals make a clear link between performance pay and providers' performance. Among the four medical centers GAO visited, performance pay goals covered a range of areas, including clinical, research, teaching, patient satisfaction, and administration. At these medical centers, all providers GAO reviewed who were eligible for performance pay received it, including all five providers who had an action taken against them related to clinical performance in the same year the pay was given. The related provider performance issues included failing to read mammograms and other complex images competently, practicing without a current license, and leaving residents unsupervised during surgery. Moreover, VA's policy is unclear about how to document certain decisions related to performance pay. For example, the policy does not provide clear guidance on what to document regarding whether a provider's performance-related action should result in the reduction or denial of the provider's performance pay. In contrast to the performance pay policy, VA's performance award policy clearly states the purpose of these awards—specifically, that they are to recognize sustained performance of providers beyond normal job requirements as reflected in the provider's most recent performance rating. VA policy also lists the measures, such as clinical competence, that providers' supervisors are to use to determine these providers' performance rating.

VHA's oversight is inadequate to ensure that medical centers comply with performance pay and award requirements. VHA's annual consultative reviews, initiated in 2011, help medical centers comply with human resources requirements, including performance award requirements. Recently, these reviews began to also include performance pay requirements, but do not yet include a standard list of performance pay elements to review, which would be needed to ensure consistency of reviews across medical centers. Further, reviewers do not have the authority to require medical centers to resolve compliance problems they identify, and VHA has not formally assigned specific organizational responsibility to ensure medical centers resolve identified problems. As a result, VHA is unable to ensure that reviews consistently identify problems, and that these problems are corrected and do not recur. GAO found that two of the four medical centers visited did not always correct problems identified through these reviews. For example, a May 2011 review of one of these two medical centers found that the medical center did not conduct a formal evaluation of its performance award program, as required. A review of the same medical center about a year later found the identical problem.

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# Contents

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|        |  |    |
|--------|--|----|
| Letter |  | 1  |
|        | Background   | 7  |
|        | VA's Performance Pay Policy Has Gaps in Information Needed to Administer Performance Pay       | 9  |
|        | VHA's Oversight Is Inadequate to Ensure Compliance with Performance Pay and Award Requirements | 18 |
|        | Conclusions  | 21 |
|        | Recommendations for Executive Action   | 22 |
|        | Agency Comments and Our Evaluation   | 23 |

---

|            |   |    |
|------------|---|----|
| Appendix I | Performance-Related Personnel Actions and Performance Pay Amounts | 27 |
|------------|---|----|

---

|             |  |    |
|-------------|--|----|
| Appendix II | Comments from the Department of Veterans Affairs | 28 |
|-------------|--|----|

---

|              |                                       |    |
|--------------|---------------------------------------|----|
| Appendix III | GAO Contact and Staff Acknowledgments | 34 |
|--------------|---------------------------------------|----|

---

|        |   |    |
|--------|---|----|
| Tables |   |    |
|        | Table 1: Examples of Types of Goals Established for a Mental Health Provider at Each of Four VA Medical Centers GAO Visited   | 11 |
|        | Table 2: Basis for Performance-Related Personnel Action, Action Taken, and Performance Pay Amount Received for Five Eligible Providers at Four VA Medical Centers GAO Visited, Fiscal Years 2010 and 2011 | 27 |

---

|         |  |    |
|---------|--|----|
| Figures |  |    |
|         | Figure 1: VA Form 10-0432 for Performance Pay  | 15 |
|         | Figure 2: Organization of Veterans Health Administration (VHA) Offices Involved in Performance Pay and Awards for Medical Center Physicians and Dentists | 20 |

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## Abbreviations

|       |   |
|-------|---|
| CARDS | Consult, Assist, Review, Develop, and Sustain |
| VA    | Department of Veterans Affairs                |
| VHA   | Veterans Health Administration                |

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July 24, 2013

The Honorable Patty Murray  
Chairman  
Committee on the Budget  
United States Senate

The Honorable Bernie Sanders  
Chairman  
Committee on Veterans' Affairs  
United States Senate

The Honorable Michael Michaud  
Ranking Member  
Committee on Veterans' Affairs  
House of Representatives

The Department of Veterans Affairs (VA) operates one of the largest health care systems in the nation and strives to provide high-quality and safe care to veterans. One important element of VA's efforts to sustain and increase quality and safety is its pay and award systems. These systems, which include evaluating the performance of physicians and dentists, referred to in this report collectively as providers, are administered by the Veterans Health Administration (VHA), which administers VA's health care system. In 2004, the VA Health Care Personnel Enhancement Act established performance pay, an annual lump sum payment based on the achievement of specific goals and performance objectives, for providers.<sup>1</sup> In addition to performance pay, VA has established monetary performance awards that are available

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<sup>1</sup>Performance pay is one of three components of the pay structure for providers established in 2004 by the VA Health Care Personnel Enhancement Act. Performance pay is available only to providers. The other two components of the pay structure are base pay, which is determined by the number of years of VA service, and market pay, which is intended to reflect the recruitment and retention needs for providers and takes into account the health care labor market. Performance pay is given annually in a lump sum and may not exceed the lesser amount of \$15,000 or 7.5 percent of a provider's combined base and market pay. See 38 U.S.C. § 7431.

Performance pay is common throughout the health care industry and is usually based on specific contributions that providers make in improving the quality and efficiency of health care delivery.

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annually to all staff, including providers, on the basis of annual performance reviews. According to data provided by VA, more than 18,500 or approximately 80 percent, of the nearly 22,500 providers received performance pay in fiscal year 2011.<sup>2</sup> More than 4,000 providers, or approximately 20 percent, received performance awards.<sup>3</sup> For fiscal year 2011, VHA paid providers nearly \$150 million in performance pay, an average of \$8,049 per provider who received the pay, and more than \$10 million in performance awards, an average of \$2,587 per provider who received an award.

While VHA strives to provide high-quality and safe care to veterans, concerns continue to surface about the quality of care it delivers. Meanwhile, many providers continue to receive compensation that is tied directly to their performance. According to federal standards for internal control, part of VHA's responsibility for administering performance pay and awards is to ensure that providers understand the link between these sources of compensation and their performance.<sup>4</sup> Furthermore, VHA may take action against providers who fail to deliver high-quality, safe health

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<sup>2</sup>Not all providers are eligible for performance pay. To be eligible for performance pay, a provider must have been employed by VA by July 1 of the fiscal year being reviewed and must not leave before September 30 of the same fiscal year. In addition, providers are not eligible for performance pay if they are interns, residents, fee-basis employees, fellows, research trainees, or a specific subset of providers who work at the Manila Outpatient Clinic, which is the only VA facility in a foreign country. Department of Veterans Affairs, *Pay Administration*, VA Handbook 5007, v.32 (Washington, D.C.: Feb. 21, 2008). While the approximately 22,500 providers represented in the data do not include residents, they include other types of providers who were not eligible for performance pay. However, it was not possible for officials from VA's Human Resources and Information Systems office, who provided the data, to determine eligibility from the data. As a result, the proportion of eligible providers who received performance pay in fiscal year 2011 is likely higher than 80 percent.

<sup>3</sup>Not all providers are eligible for performance awards. To be eligible, a provider must have a completed annual performance review. In addition, the performance award policy says that performance awards are not required and that performance awards may be awarded only if the provider receives a performance rating of satisfactory or higher. Department of Veterans Affairs, *Employee Recognition and Awards*, VA Directive 5017, v.4 (Washington, D.C.: July 7, 2010) and *Employee Recognition and Awards*, VA Handbook 5017, v.9 (Washington, D.C.: July 7, 2010).

<sup>4</sup>Federal standards for internal control activities state that performance evaluations, supplemented by an effective award system, should be designed to help employees understand the connection between their performance and the organization's success. GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

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care, including adverse or privileging actions, which we refer to as performance-related personnel actions, to address issues related to providers' clinical performance.<sup>5</sup>

You asked us to evaluate VHA's performance pay and award systems. In this report, we examine the extent to which (1) VA's policies ensure appropriate administration of performance pay and awards; and (2) VHA oversees its medical centers' compliance with policy requirements for performance pay and awards.

To examine the extent to which VA's policies ensure appropriate administration of performance pay and awards, we reviewed and analyzed relevant VA policy requirements and interviewed officials in VA's Office of Human Resources Management who are responsible for developing VA's policies on performance pay and awards, and officials in VHA's Workforce Management and Consulting Office who are responsible for helping medical centers implement these policies.<sup>6</sup> We also reviewed the Senate Committee Report, Congressional Record entries, and hearing transcripts associated with the VA Health Care Personnel Enhancement Act of 2004.<sup>7</sup> We visited four VA medical

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<sup>5</sup>For this report, we use the term performance-related personnel actions to include any action taken against a provider to address clinical performance, including major adverse actions, disciplinary actions, and privileging actions for which the medical centers' documentation indicated that the action was related to patient safety or care quality. According to VA policy, major adverse actions include suspension, transfer, reduction in grade, reduction in basic pay, and termination. Disciplinary actions include admonishments, which are official letters of censure for minor deficiencies in competence or conduct; and reprimands, which are more severe letters of censure for deficiencies in competence or conduct. Department of Veterans Affairs, *Employee/Management Relations*, VA Directive 5021, v.3 (Washington, D.C.: Aug. 28, 2007) and *Employee/Management Relations*, VA Handbook 5021, v.10 (Washington, D.C.: Nov. 8, 2012), accessed April 17, 2013, [http://www.va.gov/vapubs/search\\_action.cfm?dType=2](http://www.va.gov/vapubs/search_action.cfm?dType=2). Privileging actions include reducing, revoking, denying, or failing to renew a provider's privileges. Privileges are the authority granted to a provider by a hospital governing board to provide patient care in the hospital and are based on the individual's license, experience, and competence. Veterans Health Administration, *Credentialing and Privileging*, VHA Handbook 1100.19 (Washington, D.C.: Nov. 14, 2008).

<sup>6</sup>VA, *Pay Administration*, VA Handbook 5007; *Employee Recognition and Awards*; VA Directive 5017; and *Employee Recognition and Awards*, VA Handbook 5017.

<sup>7</sup>See S. Rep. No. 108-357, at 5 (2004); 150 Cong. Rec. S10466-67 (Oct. 5, 2004); 150 Cong. Rec. H9791-93 (Nov. 17, 2004). Also see *Veterans Affairs Physician and Dentist Compensation Issues: Hearing before the Subcommittee on Health of the House Committee on Veterans' Affairs*, 108th Cong. 61 (2003).

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centers—in Atlanta, Georgia; Togus, Maine; Dallas, Texas; and Seattle, Washington—to examine the administration of VA’s performance pay and award policies. We selected these medical centers because they were in different geographic areas of VA’s 21 networks<sup>8</sup> and U.S. Census divisions, and had at least one provider who had a major adverse action taken against him or her in fiscal year 2010 or 2011, which were the 2 most recent fiscal years for which data were available.<sup>9</sup> We reviewed documentation for the providers with performance-related personnel actions, which include major adverse actions, during these 2 fiscal years in order to determine whether the medical centers gave performance pay and awards to these providers and their reasons for doing so. We reviewed Standards for Internal Control in the Federal Government to identify requirements for effective internal controls related to documentation. Specifically, we reviewed federal standards for internal control activities, which state that all transactions and significant events need to be clearly documented and readily available for examination.<sup>10</sup> We interviewed VA and VHA officials in headquarters to obtain their expectations for documenting pay and award decisions for providers with such actions. We also asked officials at the four medical centers and at the related networks how they interpreted specific requirements in the performance pay and award policies and how they documented compliance with them.

To examine the extent to which VHA oversees its medical centers’ compliance with policy requirements for performance pay and awards, we reviewed VA’s policies mentioned in the first objective to identify any references to VHA oversight of performance pay and awards. In addition, we reviewed Standards for Internal Control in the Federal Government to identify requirements for effective internal controls related to oversight. Specifically, we reviewed federal standards for internal control environment, which state that a good internal control environment

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<sup>8</sup>Each of VA’s 21 networks is responsible for managing and overseeing medical centers within a defined geographic area.

<sup>9</sup>We used data from VHA’s Workforce Management and Consulting Office to identify medical centers with providers who were the subject of major adverse actions. We consulted with selected medical centers to confirm this information and request information about other performance-related personnel actions taken in fiscal years 2010 and 2011.

<sup>10</sup>[GAO/AIMD-00-21.3.1](#).



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requires that agencies' organizational structures clearly define key areas of responsibility. We also reviewed federal standards for internal control for monitoring, which state that monitoring should ensure that the findings from reviews are promptly resolved and that management should follow up on review findings, recommendations, and the actions decided upon to ensure that those actions are taken.<sup>11</sup> We reviewed VHA's organizational structure to determine the lines of oversight authority. We interviewed officials from VHA's Workforce Management and Consulting Office who conduct Consult, Assist, Review, Develop, and Sustain (CARDS) reviews of medical centers' human resources offices to determine medical centers' compliance with VA's requirements for human resources personnel actions.<sup>12</sup> For the four medical centers, we reviewed all available CARDS reviews since CARDS was established in 2011.<sup>13</sup> We interviewed the human resources managers at the four VA medical centers and the associated networks to understand their processes for ensuring compliance with requirements in VA's policies for performance pay and awards.

In addition, to examine VHA's oversight of its medical centers' compliance with these requirements, we reviewed performance pay and award documents for a sample of approximately 25 providers from each of the four medical centers we visited for the 2 most recent fiscal years—2010 and 2011.<sup>14</sup> Specifically, we selected a random sample of physicians primarily from three specialties—primary care, psychiatry, and surgery. We also reviewed documents for the supervisors—called service chiefs—

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<sup>11</sup>[GAO/AIMD-00-21.3.1](#).

<sup>12</sup>We also interviewed the director of VA's Office of Oversight and Effectiveness, which conducts oversight reviews of human resources personnel actions.

<sup>13</sup>One of the four medical centers had not yet had a CARDS review.

<sup>14</sup>Our sample size for two VA medical centers was 25 providers for each fiscal year—2010 and 2011. The third VA medical center had 24 providers who met our criteria in fiscal year 2010 and 25 providers who met them in fiscal year 2011. The fourth VA medical center had 23 providers that met our criteria for each of the fiscal years. The results of our analysis cannot be generalized to the four medical centers we visited or across VA's health care system.

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for each of these specialties at each of the four medical centers.<sup>15</sup> These three specialties are among the most common specialties at most VA medical centers. We also selected a random sample of dentists to review, as well as the dental service chief and the chief of staff at each medical center.<sup>16</sup> We used VHA data to select the sample; we verified the accuracy of these data with each medical center and found the data sufficiently reliable for our purposes of selecting a sample. We also interviewed the supervisors of the three physician specialties and the dental specialty, as well as the chiefs of staff, to understand how they implement the policy requirements for performance pay and awards.

We conducted this performance audit from April 2012 to July 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>15</sup>The documentation we reviewed is generally contained in providers' official personnel folders, which are not maintained at the medical center after the provider no longer works at the medical center. At one medical center, one of the service chiefs was no longer working there at the time of our review, so we did not examine that documentation.

We did not review documentation for providers at VA networks or headquarters because we focused our review on providers that provide direct patient care and those providers are primarily at VA medical centers.

<sup>16</sup>The chief of staff, who is typically a physician or dentist, oversees all providers, including service chiefs, at a VA medical center. The chief of staff may also see patients.

Some of the four medical centers did not have five physicians in each of the three selected specialties. In these instances, we randomly selected alternate physicians from another specialty. Likewise, some medical centers did not have five dentists who met the selection criteria. In these instances, our review of dentists was limited to the number of dentists at the medical center that met the criteria. For example, at one medical center we reviewed only three dentists, which resulted in a smaller sample.

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## Background

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### Performance Pay

Most VA providers—including full- and part-time providers—are eligible for performance pay, but they may choose not to participate.<sup>17</sup> Performance pay is given annually in a lump sum and may not exceed the lesser amount of \$15,000 or 7.5 percent of a provider's combined base and market pay, under the statute that defines the elements of provider pay.<sup>18</sup> However, according to VHA officials, VA headquarters and each network and medical center have discretion to set a lower annual cap for their providers, and the amounts awarded may also depend on VA's budget. Under the statute, performance pay is given on the basis of a provider's achievement of specific goals and performance objectives, referred to in this report as goals. According to policy, performance pay goals can be established by medical center and network officials. As a result, the goals may be the same for all providers in the network, at a particular medical center, or within a particular specialty, or they may vary by individual provider. The amount of performance pay depends on the extent to which it is determined that a provider met his or her performance pay goals. Performance pay goals may include, for example, achieving a specific patient panel size, and are required by VA policy to be established within 90 days of the beginning of each fiscal year.<sup>19</sup> VA's performance pay policy requires medical centers to use form 10-0432 for each provider to document the goals and the provider's achievement of them. When completed, the form is given to the medical centers' respective human resources offices, which process the performance pay.<sup>20</sup>

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<sup>17</sup>VHA officials told us that providers may opt out of performance pay for personal circumstances that would not allow them to devote the effort required to achieve performance pay goals, for example, if they are facing health challenges. Officials were unable to quantify the number of providers who opt out of performance pay. However, for 2011 these providers would be included in the 20 percent of providers who did not receive performance pay.

<sup>18</sup>38 U.S.C. § 7431(d).

<sup>19</sup>Patient panel size is the number of patients for whom a provider is responsible.

<sup>20</sup>Some medical centers send form 10-0432 to the chief of staff's or director's office for review prior to sending the form to human resources for processing.

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## Performance Awards

Most providers are eligible for performance awards, although these awards are not required.<sup>21</sup> The awards are lump-sum payments that are made annually and are based on providers' annual performance reviews. VA policy requires that all providers—including full- and part-time providers—who have worked at VA medical centers receive annual performance reviews. For nonsupervisory providers, the reviews consist of a standard set of measures, including clinical, educational, and administrative competence; research and development; and personal qualities, such as dependability. A provider can receive an overall rating of unsatisfactory, low satisfactory, satisfactory, high satisfactory, or outstanding on an annual performance review. Service chiefs and chiefs of staff at VA medical centers, and providers at headquarters and networks who are in supervisory positions, also receive annual performance reviews based on measures outlined in VHA's managerial performance plan. For nonsupervisory providers, the policy specifies that performance award amounts should not exceed \$7,500. However, as with performance pay, VA headquarters, networks, and medical centers have discretion to determine the level of performance that would merit an award and the award amount within the \$7,500 limit. For example, one medical center may grant performance awards to all providers who receive an overall performance rating of satisfactory or higher, while another medical center may only grant performance awards for an overall rating of outstanding, or not give them at all.

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## Performance-Related Personnel Actions

VA policy states that VA medical centers may take actions, such as major adverse and disciplinary actions, against providers to address and correct deficiencies related to providers' clinical performance.<sup>22</sup> These actions range in severity from admonishment to termination of employment. In addition, VHA also has the option of taking privileging action—that is, reducing, revoking, denying, or failing to renew a provider's clinical privileges—against medical center providers to address performance deficiencies.<sup>23</sup> Medical centers have discretion in determining the type of

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<sup>21</sup>Prior to July 2010, performance awards were limited at VA medical centers to providers in supervisory positions, such as service chiefs and chiefs of staff. As of July 2010, supervisory and nonsupervisory providers at VA medical centers also became eligible for these awards.

<sup>22</sup>VA, *Employee/Management Relations*, VA Directive 5021 and *Employee/Management Relations*, VA Handbook 5021.

<sup>23</sup>VHA, *Credentialing and Privileging*, VHA Handbook 1100.19.

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action appropriate for each provider's performance issue. Performance-related personnel actions may serve as an indication that the provider has not delivered high-quality, safe health care.

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## VA's Performance Pay Policy Has Gaps in Information Needed to Administer Performance Pay

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### VA's Policy Allows Discretion in the Establishment of Performance Pay Goals, but Lacks an Overarching Purpose That the Goals Should Support

VA's performance pay policy gives VA's 21 networks and 152 medical centers discretion in the establishment of performance pay goals for providers. The policy, issued in 2005 and revised in 2008, states that providers who meet established goals should receive performance pay. However, the policy does not provide an overarching purpose that the goals should support. VA's Under Secretary for Health at the time the performance pay law was being considered stated in a congressional hearing that this pay would recognize providers' achievements in quality, productivity, and support of the overall goals of the department.<sup>24</sup> The Senate committee report and statements by members of Congress at the time the bill was passed provided that performance pay would recognize outstanding contributions to the medical center, to the care of veterans, or to the practice of medicine or dentistry, and it would motivate providers and ensure quality of care through the achievement of specific goals or objectives set for providers in advance.<sup>25</sup> In addition, VA officials responsible for writing the performance pay policy also told us that the

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<sup>24</sup>*Veterans Affairs Physician and Dentist Compensation Issues: Hearing before the Subcommittee on Health of the House Committee on Veterans' Affairs*, 108th Cong. 61 (2003) (statement of Robert H. Roswell, Under Secretary for Health, Department of Veterans Affairs).

<sup>25</sup>See S. Rep. No. 108-357, at 5 (2004); 150 Cong. Rec. S10466-67 (Oct. 5, 2004) (statements of Senators Specter and Graham); 150 Cong. Rec. H9791-93 (Nov. 17, 2004) (statements of Representatives Simmons, Rodriguez, Evans, and Jackson-Lee).

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purpose of performance pay is to improve health care outcomes and quality; however, these goals are not documented in the policy.<sup>26</sup>

Officials at the four medical centers we visited differed in their views of what constituted appropriate goals for performance pay. The following are examples of the factors these officials thought should be considered when establishing performance pay goals. According to these officials, the goals should

- be objective and measurable,
- measure only clinical achievements,
- recognize performance that is above and beyond expectations, or
- be measured at the individual provider level to ensure that the provider has direct control over the achievement of the goals.

As a result of these differing views, our review of the goals established for a mental health provider at each of four medical centers we visited found similarities as well as differences in the fiscal year 2011 goals.<sup>27</sup> For example, one medical center used clinical goals exclusively, while others used a combination of goal types, such as clinical, patient satisfaction, and research.

Table 1 includes examples of the types of goals established for a mental health provider at each of the four medical centers we visited.

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<sup>26</sup>The performance pay policy is written by VA's Office of Human Resources Management, with assistance from VHA's Workforce Management and Consulting Office.

<sup>27</sup>We sorted the goals we reviewed into five types. Clinical goals include quality, access, documentation, and consult issues; patient satisfaction goals include patient satisfaction survey results and patient complaints; research goals include training to conduct research and publishing articles; teaching goals include teaching and evaluating students, and students' ratings of teachers; and administrative goals include attending committee meetings and working on projects.

**Table 1: Examples of Types of Goals Established for a Mental Health Provider at Each of Four VA Medical Centers GAO Visited**

| Type of goal         | Medical center A | Medical center B | Medical center C | Medical center D |
|----------------------|------------------|------------------|------------------|------------------|
| Clinical             | X                | X                | X                | X                |
| Patient satisfaction |                  |                  |                  | X                |
| Research             |                  | X                |                  | X                |
| Teaching             |                  | X                | X                |                  |
| Administrative       |                  | X                | X                |                  |

Source: GAO's analysis of information provided by four VA medical centers visited.

Note: We sorted the goals we reviewed into five types. Clinical goals include quality, access, documentation, and consult issues; patient satisfaction goals include patient satisfaction survey results and patient complaints; research goals include training to conduct research and publishing articles; teaching goals include teaching and evaluating students, and students' ratings of teachers; and administrative goals include attending committee meetings and working on projects.

VHA officials told us that they have not formally reviewed the various goals that have been established by individual medical centers and networks to determine the purpose or purposes these goals support. In 2009, the Principal Deputy Under Secretary for Health asked that a group be convened to solicit and compile performance pay goals in order to review the types of goals being developed for each physician specialty and dental service across VA's health care system. VHA officials told us at the time of our review that they had not yet done this, but planned to begin compiling and discussing a list of useful goals sometime in 2013.<sup>28</sup> Because VHA has not reviewed the goals that have been set across medical centers and networks, it cannot have reasonable assurance that the goals established make a clear link between performance pay and providers' performance. This condition is inconsistent with federal

<sup>28</sup>In its comments on a draft of this report, VA stated that in February 2013 it directed a committee to conduct a review of policies and controls associated with the administration of performance pay. This committee established a workgroup to interview chiefs of staff nationwide to evaluate challenges with establishing performance pay goals, inconsistent application of performance pay, and the overall perceived value of performance pay. According to VA, an action plan based on this work was sent to the Under Secretary for Health in April 2013. In June 2013 the Under Secretary for Health directed a new task force to build upon the work of that committee and make recommendations for ensuring a consistent and system-wide process for setting and evaluating performance pay goals and granting performance pay. This work will include recommendations for reviewing and setting uniform performance pay goals across the system that are aligned to help VHA achieve its goals. A final action plan is due to the Under Secretary for Health in August 2013.

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standards for internal control activities, which includes management of human capital.<sup>29</sup>

Moreover, in reviewing documentation for selected providers at four medical centers, we found that all providers who were eligible for performance pay in fiscal year 2010 or 2011 received it, including providers who had performance-related personnel actions taken against them. Eight providers across the four medical centers had a performance-related personnel action in fiscal year 2010 or 2011. Five of the eight providers were eligible for performance pay, and all five received a portion of the pay based on the achievement of their performance pay goals during the same fiscal year in which the action was taken.<sup>30</sup> (See app. I for a summary of the circumstances that led to the performance-related personnel actions, the actions taken, and the amount of performance pay received for the five providers.) Following are examples of providers we reviewed who received performance pay in the same fiscal year that performance-related personnel actions were taken against them.

- One provider received a reprimand for practicing with an expired license for about 3 months (until medical center officials noticed the problem). The service chief explained that this provider received performance pay because maintaining a current license was not a specific performance pay goal and therefore was not a factor that was considered. However, providers must possess a current license in order to practice medicine or dentistry at a VA medical center.<sup>31</sup> For the year in which the reprimand was given, this provider had three performance pay goals—to publish one article, which was not achieved; to attend 80 percent of meetings; and to contribute to improving the service's bereaved family survey results by 10 percent. Because two of the three goals were met, the provider received

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<sup>29</sup>[GAO/AIMD-00-21.3.1](#).

<sup>30</sup>Of the eight providers who were the subject of performance-related personnel actions in fiscal year 2010 or 2011 at the four medical centers visited, three providers were not eligible for performance pay during the same fiscal year. Two of the three providers were not eligible because they were terminated or resigned before the end of the fiscal year, and the third was not eligible because the provider was placed on indefinite suspension without pay and was not practicing as of the end of the fiscal year.

<sup>31</sup>See 38 U.S.C. § 7402(b); and VHA, *Credentialing and Privileging*, VHA Handbook 1100.19.



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\$7,663 in performance pay, 67 percent of the amount for which the provider was eligible.

- Another provider was reprimanded for refusing to see assigned patients waiting in the emergency department because the provider believed that patients had been triaged inappropriately. As a result, wait times increased. Documentation provided by the medical center indicated that, of the 98 patients who were triaged to the emergency department that day, 15 patients waited for over 6 hours to be seen and 9 patients left without being seen. That same fiscal year, this provider received \$7,500 out of a maximum of \$15,000 in performance pay. Specifically, this provider had 13 performance pay goals, which included becoming a member of a committee, attending staff meetings, and ensuring that all provider notes were signed in accordance with medical center policy. The provider met 1 of the 13 goals, which was assigned a weight of 50 percent. This goal was not specific to the individual provider, but instead was based on the achievements of all emergency department providers; it included meeting performance measures, such as maintaining productivity despite reduced resources, and adhering to the medical center policy for length of stay for patients in the emergency room. Since the medical center determined that the emergency department providers, which included this provider, met this goal, the provider received 50 percent of the maximum amount of performance pay. The service chief told us that his preference would have been to deny performance pay to this provider altogether, but he was told that the provider was entitled to the pay.

In contrast to the performance pay policy, VA's performance award policy clearly states the purpose of these awards—specifically, that they are to recognize sustained performance of providers beyond normal job requirements as reflected in the provider's most recent performance rating. VA policy also lists the measures supervisors are to use to determine the performance rating for providers in nonsupervisory positions, such as clinical competence.

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**VA's Policy Is Unclear  
about Documenting  
Certain Requirements and  
Silent about Documenting  
Performance Pay  
Decisions for Providers  
Who Had Performance-  
Related Personnel Actions**

VA's performance pay policy is unclear about how to document compliance with two requirements—the goal-setting discussion between the supervisor and provider and the approval of the performance pay amount. For the documentation of goal-setting discussions, the policy states that supervisors are to discuss established goals with individual providers within 90 days of the beginning of the fiscal year, but it does not specify how medical centers are to demonstrate compliance with this requirement. VA's policy specifies that form 10-0432 is to be used for documenting performance pay. The form has space at the top for listing the goals that a provider must meet to receive performance pay. The form includes a signature and date box for the supervisor and for the provider, respectively. (See fig. 1, section A.) The VA officials who wrote the policy, and VHA officials who are responsible for helping medical centers implement it, told us they expect that provider and supervisor signatures on the top of the form would indicate that goals have been discussed and the date would indicate when this discussion took place. The officials told us that this date is to verify that the 90-day requirement was met, but they have not documented or provided this guidance to the medical centers.

Figure 1: VA Form 10-0432 for Performance Pay

| Department of Veterans Affairs                             |                      | PERFORMANCE PAY<br>RECOMMENDATION & APPROVAL |                 |
|--|----------------------|--|-----------------|
| PERIOD COVERED   | SERVICE/LOCATION     |  |                 |
| NAME   | LAST 4 DIGITS OF SSN | PAY TABLE/TIER                               |                 |
| ANNUAL PAY   | MAXIMUM              | TARGET PERFORMANCE PAY                       | % OF ANNUAL PAY |
| <b>PERFORMANCE GOAL(S) / OBJECTIVE(S)</b>                  |                      |  |                 |
| 1.   |                      |  |                 |
| 2.   |                      |  |                 |
| 3.   |                      |  |                 |
| 4.   |                      |  |                 |
| 5.   |                      |  |                 |
| SUPERVISORY OFFICIAL (Print name below)                    |                      | SIGNATURE                                    | DATE            |
| EMPLOYEE (Print name below)                                |                      | SIGNATURE                                    | DATE            |
| <b>PERFORMANCE PAY DECISION</b>                            |                      |  |                 |
| RECOMMENDED<br>PERFORMANCE PAY                             |                      | % OF ANNUAL PAY                              |                 |
| DESCRIBE THE DEGREE TO WHICH GOALS AND OBJECTIVES WERE MET |                      |  |                 |
|  |                      |  |                 |
| RECOMMENDING OFFICIAL (Print name and title )              |                      | SIGNATURE                                    | DATE            |
| APPROVED AMOUNT (if different than recommended amount)     |                      |  |                 |
| APPROVING OFFICIAL (Print name and title)                  |                      | SIGNATURE                                    | DATE            |

VA FORM  
DEC 2005 **10-0432**

Source: VA.

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Because the policy does not specify how compliance with the 90-day requirement should be documented, one of the four medical centers we visited did not interpret the policy the way VA and VHA officials did, and therefore, did not document compliance with the 90-day requirement when administering performance pay. Officials responsible for processing the performance pay form at this medical center told us that VA does not have a requirement for documenting compliance with the 90-day requirement and they do not believe form 10-0432 should be used for this purpose. At this medical center, we found that none of the forms we reviewed were signed by the supervisor and provider within 90 days of the beginning of the fiscal year, and instead all the forms were signed after the end of the fiscal year. Officials from the other three medical centers said that the form should be signed by the provider and supervisor within 90 days, or as soon as possible after the beginning of the fiscal year to indicate that the goals have been communicated. However, our review of the documentation from these three medical centers indicates that their forms were not always signed within 90 days.

For the second documentation requirement, the policy states that the performance pay amount must be approved and that performance payments for the fiscal year must be disbursed no later than March 31 of the following fiscal year, but does not state that the approving official must sign form 10-0432 by that date. VA's policy also states that the supervisor should forward form 10-0432 to the designated approving official for action. The bottom of form 10-0432 includes a signature and date box for an approving official, who is to sign and date the form. (See fig. 1, section B.) VA and VHA officials told us they expect that medical centers will not disburse performance pay, which they are required to do by March 31 or earlier, unless the approving official's signature and date are on the form. However, VA's policy does not state that the approving official's signature must be dated before March 31.

Because the policy does not specify when the approving official should sign the form 10-0432, officials at the four medical centers had not all interpreted and implemented the policy the way VA and VHA officials did, and the medical centers differed in how they documented approval when administering performance pay. For example, one medical center official who became responsible for processing these forms in 2011 told us that he does not look for the approving official's signature to be dated by March 31. At this medical center, all of the fiscal year 2011 forms 10-0432 we reviewed were signed by the approving official after March 31, which indicates that the payments were made after the required disbursement date or that payments were made before they were approved. For fiscal

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year 2010, when a different official at this medical center was responsible for processing the performance pay forms, we found that nearly all of the forms were signed by the approving official by March 31. At the other three medical centers, we found that some forms were signed by the approving officials after March 31 or not at all, even though officials at these medical centers told us they strive to meet this date.

Further, VA's policy lacks a requirement for documenting whether performance-related personnel actions had an impact on providers' achievement of performance pay goals, and as a result, how these actions affected performance pay decisions, such as reducing or denying this pay. Some VHA headquarters officials we interviewed said that situations involving providers who had a performance-related personnel action would need to be reviewed case by case to determine if the action had an impact on whether the provider met established goals, since not all performance-related personnel actions would merit reducing or denying a provider's performance pay. These officials told us they expected medical center officials to document their review of these actions when determining whether to give performance pay to these providers. However, these expectations are not explicit in VA's performance pay policy. The documents provided by the four medical centers for five providers who had performance-related personnel actions did not include documentation that the actions were considered. Some medical center officials told us that they did not consider the performance-related personnel actions when making performance pay determinations, while others told us that they did but that they did not document it.

Without a performance pay policy that clearly specifies how to document decisions or compliance with requirements, VHA does not have reasonable assurance that documentation includes all necessary information, a condition that is inconsistent with federal standards for internal control activities. In addition, medical centers will likely continue to vary in their interpretation of the policy for documenting goal-setting within 90 days of the beginning of the fiscal year, and subsequent approval of performance pay and the extent to which they document compliance with it. As a result, VHA does not have reasonable assurance

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that medical centers are complying with requirements.<sup>32</sup> Furthermore, without documentation of whether performance-related personnel actions affected performance pay decisions, VHA lacks information about how these decisions were made and whether these decisions appropriately reflected providers' performance.

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## VHA's Oversight Is Inadequate to Ensure Compliance with Performance Pay and Award Requirements

VHA does not provide adequate oversight to ensure that its medical centers are in compliance and remain in compliance with performance pay and award requirements. VHA's Workforce Management and Consulting Office conducts annual Consult, Assist, Review, Develop, and Sustain (CARDS) reviews, which are consultative reviews that were initiated in 2011 to assist medical centers in complying with human resources requirements, including performance award requirements.<sup>33</sup> According to VHA officials, the results of these reviews are provided to the medical centers. However, these reviews have limitations and, as a result, do not always ensure that medical centers comply and remain in compliance with human resources requirements.

At the time of our review, VHA's CARDS reviews did not examine medical centers' compliance with performance pay requirements. The lead CARDS reviewer told us that CARDS reviews were beginning to include performance pay in 2013.<sup>34</sup> However, reviewers had not developed a standard list of performance pay elements to review, which would be needed to ensure consistency in the reviews conducted across medical

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<sup>32</sup>VA's performance award policy does not have similar requirements for documenting discussion and approval of performance awards. The performance award policy states that performance awards are to be approved by a higher-level management official using VA form 4659 and must include a complete copy of the employee's performance appraisal or proficiency report and a narrative description of any factors that were considered but not described in the appraisal. VA, *Employee Recognition and Awards*, VA Directive 5017 and *Employee Recognition and Awards*, VA Handbook 5017.

<sup>33</sup>VA's Office of Oversight and Effectiveness, in VA's Office of Human Resources Management, also conducts reviews of medical centers' human resources offices and identifies problems with noncompliance with human resources requirements, including performance award requirements. However, these reviews are conducted infrequently—about every 6 to 7 years, according to the director of the Office of Oversight and Effectiveness.

<sup>34</sup>The five CARDS reviewers take turns in the lead CARDS reviewer role on a yearly basis. This individual was the lead CARDS reviewer during our review, and as such can speak for all of the reviewers.

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centers. CARDS reviews use a standard list of elements to review other human resources requirements, including performance awards.<sup>35</sup>

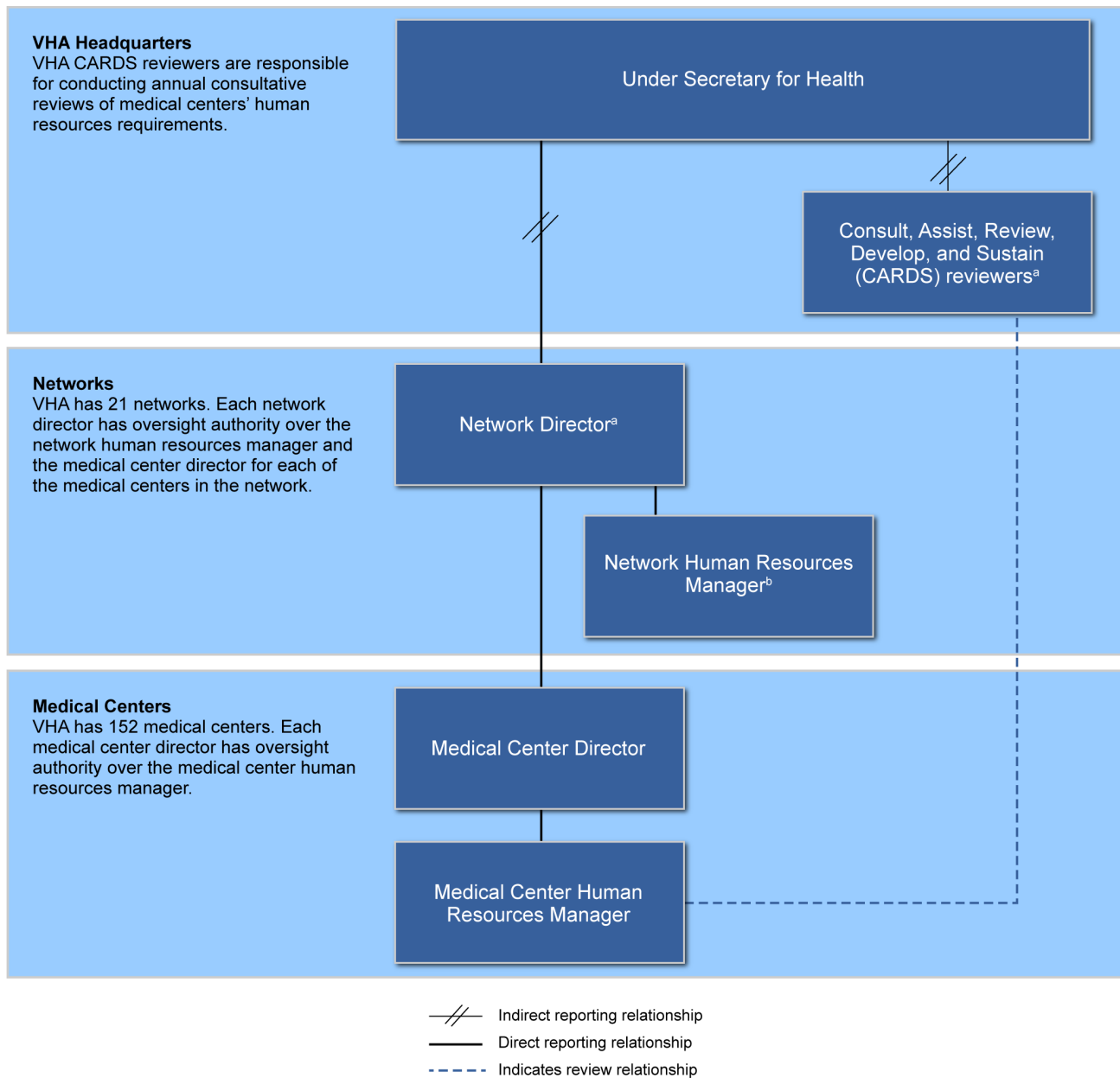
In addition, the CARDS reviewers do not have the authority to require medical centers to resolve compliance problems they identify, and VHA has not formally assigned responsibility to an organizational component with the knowledge and expertise of human resources issues to do this, a condition that is inconsistent with internal control standards for control environment.<sup>36</sup> The lead CARDS reviewer told us that their reports currently indicate that network human resources managers, who typically accompany CARDS reviewers on reviews, are to follow up with medical centers' human resources offices to ensure identified problems are resolved. However, this reviewer said CARDS reviewers do not have the authority to require that this follow-up be done. Further, network human resources managers lack the authority to require medical center human resources managers to correct identified problems because medical center directors, not network human resources managers, typically have oversight authority over medical center human resources managers, according to VHA officials. Figure 2 shows the organization of VHA offices that are involved in performance pay and awards for providers at medical centers.

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<sup>35</sup>The Director of the Office of Oversight and Effectiveness told us that the office began reviewing performance pay in 2013, but as with the CARDS reviews, had not developed a standard list of elements to review.

<sup>36</sup>[GAO/AIMD-00-21.3.1](#).

**Figure 2: Organization of Veterans Health Administration (VHA) Offices Involved in Performance Pay and Awards for Medical Center Physicians and Dentists**



Source: GAO summary of VHA information.

Notes: Information is from VHA's July 2012 organization chart and interviews with VHA officials.

<sup>a</sup>The network director and the CARDs reviewers do not report directly to the Under Secretary for Health. These officials report through other offices in VHA's chain of command. For example, the



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network director reports directly to the Deputy Under Secretary for Health for Operations and Management.

<sup>b</sup>Generally, the applicable network human resources official attends the CARDS review.

As a result of the limitations with CARDS reviews—the lack of a standard list of performance pay elements, as well as the lack of an organizational component assigned to follow up on noncompliance and ensure it is corrected—VHA is unable to ensure that medical centers correct the problems found by the reviews and that problems do not recur, a condition that is inconsistent with internal control standards for monitoring.<sup>37</sup> We found that two of the four VA medical centers we visited did not always correct problems identified through CARDS reviews. For example, a May 2011 CARDS review of one of these two medical centers found that the medical center did not conduct a formal evaluation of its awards program, as required. A CARDS review of this same medical center about a year later found the identical problem. An October 2011 CARDS review of the second medical center found that the facility was not using the required form 4659 for performance awards, and we found that the same medical center did not use form 4659 for performance awards in fiscal years 2010 and 2011. We also found that another medical center was not using form 4659 for performance awards in fiscal years 2010 and 2011. Additionally, we found other instances of noncompliance at two of the four medical centers. For example, we found that one of the medical centers we visited used form 4659 for performance awards, but was unable to provide the form for two of the five providers who received awards in fiscal year 2011. Further, we found that another medical center was unable to provide the required form 10-0432 for performance pay for six of the providers we reviewed in fiscal years 2010 or 2011. Also, for the providers' forms that were available in fiscal year 2010, two forms did not indicate whether the goals were met to justify the performance pay amounts, as required by VA policy.

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## Conclusions

Part of VHA's responsibility for administering performance pay and awards is ensuring that providers understand the link between this compensation and their performance, according to federal internal control standards. However, VA's performance pay policy does not state a purpose for this pay, and VHA, which administers this pay, has not reviewed the performance pay goals that have been established across

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<sup>37</sup>[GAO/AIMD-00-21.3.1](#).

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VA medical centers and networks. Without stating a purpose for the pay and reviewing the goals, VHA cannot determine the purposes these goals support, and the relationship between performance pay and providers' performance is unclear. All of the providers we reviewed who were eligible for performance pay in fiscal year 2010 or 2011 received this pay, including providers who had performance-related personnel actions taken against them. Because VA's policy is silent on documenting whether performance-related personnel actions affected performance pay, none of the medical centers provided documentation that these actions were considered in making performance pay decisions. As a result, VHA lacks information about how these decisions were made and whether these decisions reflect providers' performance. Moreover, because VA's policy does not specify how compliance should be documented for certain performance pay requirements, such as discussion of goals and approval of amounts, VHA cannot ensure consistent compliance across its medical centers.

In addition, oversight of medical centers' management of performance pay and awards is not adequate for VHA to have reasonable assurance that medical centers fully comply with requirements. VHA has not assigned responsibility to an organizational component to follow up on identified problems at medical centers, including problems identified during CARDS reviews, to ensure that they are corrected and remain corrected. Oversight that does not ensure that identified problems are resolved and remain so is inconsistent with federal standards for internal control, and may allow compliance problems to persist or worsen.

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## Recommendations for Executive Action

To clarify VA's performance pay policy, we recommend that the Secretary of Veterans Affairs direct the Assistant Secretary for Human Resources and Administration to take the following four actions to specify in policy:

- the overarching purpose of performance pay;
- how medical centers should document that supervisors have discussed performance pay goals with providers within the first 90 days of the fiscal year;
- that medical centers should document approval of performance pay amounts and that the approval occurred before the required March 31 disbursement date; and

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- how medical center officials should document whether performance-related personnel actions had an impact on providers' achievement of performance pay goals, and as a result, affected performance pay decisions.

To ensure that performance pay goals are consistent with the overarching purpose that VA specifies for this pay, we recommend that the Secretary of Veterans Affairs direct the Under Secretary for Health to review existing performance pay goals across VA's health care system.

To strengthen oversight of medical centers' compliance with VA policy requirements for performance pay and awards, we recommend that the Secretary of Veterans Affairs direct the Under Secretary for Health to take the following two actions:

- ensure medical centers are in compliance with the requirements in the performance pay and award policies and
- assign responsibility to a VHA organizational component with the knowledge and expertise to ensure correction of medical centers' noncompliance with VA's performance pay and award policy requirements, including problems identified during CARDS reviews, and ensure that medical centers maintain compliance with these requirements.

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## Agency Comments and Our Evaluation

VA provided written comments on a draft of this report, which we have reprinted in appendix II.<sup>38</sup> In its comments, VA generally agreed with our conclusions and recommendations.

In response to our recommendations to clarify the performance pay policy, VA stated that it concurred with three of them and concurred in principle with the fourth. Regarding the overarching purpose of performance pay, VA stated that it will coordinate with VHA to develop a policy change that will clearly articulate the purpose of performance pay,

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<sup>38</sup> VA included two attachments to its comments—a February 11, 2013, memorandum from VHA's Under Secretary for Health to the National Leadership Council Workforce Committee regarding VHA use of provider performance pay and a June 20, 2013, memorandum from the Under Secretary for Health to members of the VHA Physician and Dentist Performance Pay Task Force. Because both attachments restated the actions that were being taken as described in VA's comments, we did not reprint them in the appendix.

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which is to ensure and improve the quality of care through the achievement of specific goals and objectives. In response to our recommendations that VA specify how medical centers should document the goal-setting discussion between the supervisor and provider, and the approval of the performance pay amount, VA stated that it would revise the performance pay policy to include more detailed instructions for documenting compliance with these two requirements. In addition, VA said it would revise form 10-0432 to include sections for documenting compliance with these two requirements.

VA stated that it agreed in principle with our recommendation that medical centers should document whether performance-related personnel actions had an impact on providers' achievement of performance pay goals, and affected performance pay decisions. VA agreed that medical center officials should consider whether a performance-related personnel action had an impact on the provider's achievement of the goals and objectives associated with performance pay, but stated that it is inappropriate to require the documentation of the decision on form 10-0432. We appreciate VA's commitment to clarify in policy that medical center officials should consider performance-related personnel actions when making performance pay decisions. We support VA's flexibility as to where to document these considerations, which is why we did not specify in our recommendation that form 10-0432 should be used for this purpose. However, we continue to believe that if such considerations are not documented, VHA lacks information about how these decisions were made and whether these decisions appropriately reflected providers' performance, which is inconsistent with federal internal control standards for documentation.

To address our recommendation that the Under Secretary for Health review the existing performance pay goals across VA's health care system to ensure that performance pay goals are consistent with the purpose specified in policy, VA stated that the Under Secretary for Health directed a committee on February 11, 2013, to conduct a review of policies and controls associated with the administration of performance pay, including evaluating challenges associated with establishing performance pay goals, inconsistent application of performance pay, and the overall perceived value of performance pay. In June 2013, the Under Secretary for Health directed a new task force to build upon the work of that committee and make recommendations for ensuring a consistent and system-wide process for setting and evaluating performance pay goals and granting performance pay, including making recommendations for

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reviewing and setting uniform performance pay goals across the system that are aligned to help VHA achieve its goals.

To address our recommendations to strengthen oversight of medical centers' compliance with VA policy requirements for performance pay and awards, VA stated that the Under Secretary for Health established in May 2013 a task force to develop and provide guidance and methodology for performance pay. In addition, VA stated that VHA's Office of the Deputy Under Secretary for Health for Operations and Management will assign responsibility to the network directors, in coordination with the network human resources managers, network chief medical officers, medical center directors, medical center chiefs of staff, and medical center human resources managers, for monitoring and enforcing VA's performance pay and award policies, and communicate that responsibility in a memorandum. Additionally, the Office of the Deputy Under Secretary for Health for Operations and Management will communicate in a memorandum to the network directors and human resources managers that they should monitor and track CARDS reviews and coordinate with the medical center directors and human resources managers to ensure proper corrective actions are taken for compliance.

VA also provided a general comment that it considered our definition of performance-related personnel actions, defined in footnote 5 of the report, to be too broad. Specifically, VA stated that performance actions are taken when an employee lacks the skill and ability to perform assigned duties, and that in such situations providers are given assistance and an opportunity period to perform at an acceptable level of competence. VA also stated that if the provider fails to perform at an acceptable level during this period, the resulting performance action will be either a reduction of privileges or termination. However, VA's policy on employee/management relations states that disciplinary actions—which include admonishments and reprimands—and major adverse actions—which include suspension, transfer, reduction in grade, and reduction in basic pay, in addition to termination—can be taken to address performance or conduct. In addition, VA stated that four of the five scenarios listed in appendix I of the report were conduct actions, not performance actions. As stated in footnote 5 of the report, we created the term performance-related personnel actions to include any action taken to address clinical performance—that is, an action that medical centers' documentation indicated was related to patient safety or quality. Documentation provided by the medical centers for each of the five cases listed in appendix I clearly stated that the actions that were taken against the providers were related to patient safety or quality.

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As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the Secretary of Veterans Affairs, interested congressional committees, and others. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at (202) 512-7114 or [draperd@gao.gov](mailto:draperd@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.

A handwritten signature in black ink, appearing to read 'Debra A. Draper', with a stylized flourish at the end.

Debra A. Draper  
Director, Health Care

# Appendix I: Performance-Related Personnel Actions and Performance Pay Amounts

**Table 2: Basis for Performance-Related Personnel Action, Action Taken, and Performance Pay Amount Received for Five Eligible Providers at Four VA Medical Centers GAO Visited, Fiscal Years 2010 and 2011**

| Basis for taking performance-related personnel action against provider and action taken  | Performance pay amount received <sup>a</sup><br>(dollars) | Maximum amount eligible for<br>(dollars) |
|--|---|--|
| A Professional Standards Board found that a radiologist failed to read mammograms and other complex images competently. <sup>b</sup> The radiologist's privileges were reduced. <sup>c</sup>   | \$8,216   | \$12,000                                 |
| Surgeon who was supervising residents left the operating room and medical center before the surgery was completed, allowing residents to continue the surgery without supervision until another surgeon was found to supervise the residents. The surgeon was suspended without pay for 14 calendar days.  | 11,189  | 15,000                                   |
| Physician refused to see assigned patients in emergency room because physician believed patients had not been triaged appropriately by the emergency department nurse. As a result, wait times increased. According to documentation provided by the medical center, 15 patients waited more than 6 hours to be seen, and 9 patients left without being seen. The physician was reprimanded. <sup>d</sup>  | 7,500   | 15,000                                   |
| Physician could not be reached when he was required to be available, which delayed patient care. Physician engaged in inappropriate behavior that had a negative impact on the patient care environment. The physician "yelled" at other staff, and the outbursts were regularly witnessed by patients, contributing to an atmosphere of fear and poor morale in the emergency department. The physician was suspended for 3 days with pay and received a letter of alternative discipline. <sup>e</sup> | 10,529  | 12,640                                   |
| Physician practiced with expired license for 3 months until the medical center discovered the situation. The physician was reprimanded. <sup>d</sup>   | 7,663   | 11,495                                   |

Source: GAO summary of Veterans Health Administration information.

<sup>a</sup>Performance pay amount received was based on providers' achievement of performance pay goals for that fiscal year.

<sup>b</sup>Professional Standards Boards are boards of peers that make recommendations concerning appointments, promotions, and other personnel actions. One function of these boards is to conduct reviews of providers' performance and conduct during the probationary period (the 2-year period of initial employment at the Department of Veterans Affairs [VA]) and make recommendations for whether to retain or separate providers with alleged performance or conduct deficiencies.

<sup>c</sup>Privileges are the authority granted to a provider by a hospital governing board to provide patient care in the hospital and are based on the individual's license, experience, and competence. Medical centers can reduce, revoke, deny, or fail to renew a provider's privileges on the basis of deficiencies in professional performance.

<sup>d</sup>A reprimand is an official letter of censure to a provider for deficiencies in competence. Reprimands can also be issued for acts of misconduct. A reprimand is a more severe disciplinary action than an admonishment, which is an official letter of censure to a provider for minor deficiencies in competence or conduct.

<sup>e</sup>VA officials did not provide documentation of the letter of alternative discipline but indicated that it was probably a reprimand. We included this case in our sample based on documentation provided by the medical center, which indicated that the action was closed in fiscal year 2010.

# Appendix II: Comments from the Department of Veterans Affairs

Note: Page numbers in the draft report may differ from those in this report.



DEPARTMENT OF VETERANS AFFAIRS  
Washington, DC 20420

July 9, 2013

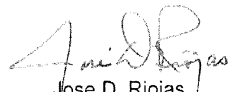
Ms. Debra A. Draper  
Director, Health Care  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Ms. Draper:

The Department of Veterans Affairs (VA) has reviewed the Government Accountability Office's (GAO) draft report, "**VA HEALTH CARE: Actions Needed to Improve Administration of the Provider Performance Pay and Award Systems**" (GAO-13-536). VA generally agrees and concurs with GAO's conclusions and recommendations, and concurs in principle with action four of recommendation 1, to the Department.

The enclosure specifically addresses GAO's recommendations and provides general comments to the draft report. VA appreciates the opportunity to comment on your draft report.

Sincerely,

  
Jose D. Riojas  
Interim Chief of Staff

Enclosure



Enclosure

Department of Veterans Affairs (VA) Comments to  
Government Accountability Office (GAO) Draft Report  
***"VA HEALTH CARE: Actions Needed to Improve Administration of the Provider  
Performance Pay and Award Systems"***  
(GAO-13-536)

**GAO Recommendation 1:** To clarify in VA's performance pay policy, we recommend that the Secretary of VA direct the Assistant Secretary for Human Resources and Administration to take the following four actions to specify in policy:

- the overarching purpose of performance pay;

**VA Comment:** Concur. VA policy regarding performance pay is primarily contained in VA Handbook 5007 (Pay Administration), Part IX. A policy change is being developed (and coordinated with the Veterans Health Administration (VHA)) that will clearly articulate the purpose of performance pay under VA's physician and dentist pay system. The policy will articulate that the intent of performance pay is to ensure and improve the quality of care through the achievement of specific goals and objectives. Target completion date: October 31, 2013.

- how medical centers should document that supervisors have discussed performance pay goals with providers within the first 90 days of the fiscal year;

**VA Comment:** Concur. VA Handbook 5007, Part IX, states that performance goals and objectives should be communicated to each individual physician and dentist within 90 days of the beginning of each fiscal year, or within 30 days for a newly hired physician or dentist. In order to document compliance with this requirement, VA Form 10-0432, Performance Pay Recommendation and Approval, will be revised to include a section that will document when the performance goals and objectives are communicated to the individual employee; the form will require signatures from both the employee and supervisor/management officials. In addition, VA Handbook 5007, Part IX will be revised to include more detailed instructions regarding the requirement to document when performance goals and objectives are communicated to employees. Target completion date: October 31, 2013.

- that medical centers should document approval of performance pay amounts and that the approval occurred before the required March 31 disbursement date; and

**VA Comment:** Concur. VA policy contained in VA Handbook 5007, Part IX, states that at the end of each year each supervisor should evaluate and communicate to the provider the degree to which the individual achieved the performance pay goals and objectives identified at the beginning of the fiscal year; any subsequent performance pay should be disbursed to the employee no later than March 31 of the following year. VA Handbook 5007, Part IX, will be revised to require the evaluation, communication, approval and any subsequent performance pay disbursement to be completed no later

Enclosure

Department of Veterans Affairs (VA) Comments to  
Government Accountability Office (GAO) Draft Report  
***“VA HEALTH CARE: Actions Needed to Improve Administration of the Provider  
Performance Pay and Award Systems”***  
(GAO-13-536)

than March 31 of each year. VA Form 10-0432 will be revised to include a signature block and date signed block for the recommending official, the employee and the approving official. Target completion date: October 31, 2013.

- **how medical center officials should document whether performance-related personnel actions had an impact on providers' achievement of performance pay goals, and as a result, affected performance pay goals, and as a result, affected performance pay decisions.**

**VA Comment:** Concur in principle. Although we agree that medical center officials should consider whether a performance-related or a conduct-related action had an impact on the provider's achievement of the goals and objectives associated with performance pay, we do not think it is appropriate to require the documentation of the decision on VA Form 10-0432. VA Handbook 5007, Part IX, will be revised to clarify that managers should consider the degree to which a performance-related or conduct-related action had on the provider's ability to achieve the performance pay goals and objectives. Target completion date: October 31, 2013.

**GAO Recommendation 2:** To ensure that performance pay goals are consistent with the overarching purpose that VA specifies for this pay, we recommend that the Secretary of VA direct the Under Secretary for Health to review existing performance pay goals across VA's health care system.

**VA Comment:** Concur. On February 11, 2013, the Under Secretary for Health (USH) charged the National Leadership Council (NLC) Workforce Committee to conduct a review of policies and controls associated with the administration of physician and dentist performance pay (Attachment A). The NLC Workforce Committee established a working group of physician leaders to conduct the assessment. The working group interviewed Chiefs of Staff from 55 VHA facilities nationwide with diverse levels of size and complexity. Primary areas of focus for the work group included evaluating challenges associated with establishing performance pay goals, inconsistent application of performance pay, and the overall perceived value of performance pay. Findings of the work group were presented to the NLC Workforce Committee on March 25, 2013. An action plan to address areas cited for improvement was submitted to the Office of the USH on April 29, 2013.

On June 20, 2013, the USH charged a new task force with building upon the prior work of the Workforce Committee and making recommendations for ensuring a consistent and system-wide process for setting, evaluating, and awarding of physician and dentist performance pay. This work will include recommendations for reviewing and setting uniform performance pay goals across the system that are aligned to help VHA achieve

Enclosure

Department of Veterans Affairs (VA) Comments to  
Government Accountability Office (GAO) Draft Report  
***“VA HEALTH CARE: Actions Needed to Improve Administration of the Provider  
Performance Pay and Award Systems”***  
(GAO-13-536)

its strategic imperatives. The final report is due to the USH by August 2, 2013. The report will include a proposed plan of action, outlining responsibilities for execution of the plan, with associated timelines and milestones (Attachment B).

**GAO Recommendation 3:** To strengthen oversight of medical centers’ compliance with VA policy requirements for performance pay and awards, we recommend that the Secretary of VA direct the Under Secretary for Health to take the following two actions:

- ensure medical centers are in compliance with the requirements in the performance pay and award policies; and

**VA Comment:** Concur. To ensure medical centers are in compliance with requirements in VA Handbook 5007, in May 2013, the USH established a Workforce Task Force to develop and provide guidance and methodology for physician performance pay. The task force has been charged with making recommendations to the USH for specific actions to address guidance and provide clarification on performance pay requirements. The task force will evaluate existing policy, physician performance pay data, and identify necessary evaluation tools to eliminate the wide variability in the development of physician performance pay goals, and the amount of performance pay awarded to eligible physicians and dentists. The task force recommendations will include methods to establish physician performance criteria that include consideration for clinical, academic, and research missions of VHA, and a plan to implement the use of uniform standardized metrics and improve policy to eliminate inconsistent application of physician performance pay within facilities/Veterans Integrated Service Networks (VISN). Target completion date: September 30, 2013.

- assign responsibility to a VHA organizational component with the knowledge and expertise to ensure correction of medical centers’ noncompliance with VA’s performance pay and award policy requirements, including problems identified during CARDS reviews, and ensure that medical centers maintain compliance with these requirements.

**VA Comment:** Concur. The Office of the Deputy Under Secretary for Health for Operations and Management will:

1. Ensure adherence to VA Handbook 5007, by assigning responsibility to the VISN Network Directors in coordination with the VISN Human Resource Officers, VISN Chief Medical Officers, Medical Center Directors, Medical Center Chief of Staffs, and the Medical Center Human Resource Officers for monitoring and enforcing policy as it relates to physician performance pay.

Enclosure

Department of Veterans Affairs (VA) Comments to  
Government Accountability Office (GAO) Draft Report  
***“VA HEALTH CARE: Actions Needed to Improve Administration of the Provider  
Performance Pay and Award Systems”***  
(GAO-13-536)

2. Ensure adherence to VA Handbook 5017 (Employee Recognition and Awards) by assigning responsibility to the VISN Network Directors in coordination with the VISN Human Resource Officers, VISN Chief Medical Officers, Medical Center Directors, Medical Center Chief of Staffs, and the Medical Center Human Resource Officers for monitoring and enforcing policy as it relates to the VHA award policy.
3. Issue a memorandum to VISN Network Directors in coordination with the VISN Human Resource Officers, VISN Chief Medical Officers, Medical Center Directors, Medical Center Chief of Staffs, and the Medical Center Human Resource Officers outlining the scope of responsibility in ensuring adherence to physician performance pay requirements.
4. Communicate via memorandum to VISN Network Directors and VISN Human Resource Officers to monitor and track VHA consult, assist, review, develop, and sustain reviews and coordinate with the Medical Center Directors and the Medical Centers Human Resource Officer to ensure proper corrective actions are taken for compliance. Target completion date: July 31, 2013.

Enclosure

Department of Veterans Affairs (VA) Comments to  
Government Accountability Office (GAO) Draft Report  
**"VA HEALTH CARE: Actions Needed to Improve Administration of the Provider  
Performance Pay and Award Systems"**  
(GAO-13-536)

**General Comment:**

GAO has defined the term "performance-related actions" too broadly in this draft report. Specifically, Footnote 6, which is located at the bottom of page 2, indicates the following:

*<sup>6</sup>For this report, we use the term performance-related personnel actions to include any action taken against a provider to address clinical performance, including major adverse actions, disciplinary actions, and privileging actions for which medical centers' documentation indicated that the action was related to patient safety or quality. According to VA policy, major adverse actions include suspension, transfer, reduction in grade, reduction in basic pay, and termination. Disciplinary actions include admonishments, which are official letters of censure for minor deficiencies in competence or conduct; and reprimands, which are more severe letters of censure for deficiencies in competence or conduct."*

The aforementioned definition inappropriately includes conduct-related actions as performance-related actions. VA policy makes clear distinctions between performance and conduct related actions. Performance actions are employed when an employee lacks the skill and ability to perform assigned duties. In such situations clinicians are provided assistance and an opportunity period to perform at an acceptable level of competence. Should the employee fail to perform at an acceptable level during this period the resulting performance-related action may be a reduction of privileges or termination. In contrast, conduct-related actions include all of the remedies listed in the GAO definition and are applied in instances when employees demonstrate a disregard for workplace rules, regulations and standards. While appropriate for addressing conduct-related actions, admonishments, reprimands, suspensions or transfers are not used as a remedy to correct performance. Additionally, of the five scenarios cited in Appendix 1 of the GAO report, only the first is a performance action. The remaining are conduct actions.

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# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

Debra A. Draper, (202) 512-7114 or [draperd@gao.gov](mailto:draperd@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Mary Ann Curran, Assistant Director; Elizabeth Conklin; Kaitlin McConnell; Elizabeth T. Morrison; Lisa Motley; and Christina Castillo Serna made key contributions to this report.

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